



UNIVERSITY OF AGDER

CONTROLLING ATTENTION AND VISIBILITY IN THE RECORD INDUSTRIES

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This master's thesis is carried out as a part of the education at the University of Agder and is therefore approved as a part of this education. However, this does not imply that the University answers for the methods that are used or the conclusions that are drawn.

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Abstract

The background for the thesis in hand is the changed environment of the record industries due to digitalization. Various democratizing and decentralizing expectations on digitalization exist in the academics. Research have been conducted towards the changed structures of the record industries, leaving an image of a decentralized supply chain. This opens possibilities for independent labels and artists to circumvent the traditional intermediaries. Contrasting, the record industries' market shares have not changed significantly in the past decades. It is questionable if the digitalization has led to democratizing and decentralizing structures and if it can fulfill those optimistic views in general.

The purpose of this work is to make the shifted structure and power relations of the record industries visible. By applying an exploratory research approach and a scoping literature review as a method, the structure of the record industries before and after the digitalization will be depicted. Thereby, Porter's five competitive forces and the supply chain model will help to structure the pre- and post-digitalized states of the record industries. After gaining significant knowledge about the record industries' structure, immanent power relations will be analyzed.

The present study focuses on the record industries' supply chain. This model will help to identify power relations between different intermediaries. Those enable the actors of the record industries to set up bottlenecks within the production flow of recorded music, which provides them with control over the supply chain.

This paper will provide an innovative perspective on the nature and location of a new bottleneck within the record industries' supply chain. This bottleneck occurred due to the disruption of the supply chain and re-intermediation, which is based on power relations between the different actors. With that, this work reveals a lack of current research and provides suggestions for future studies.

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1. Introduction

1.1 Topic and motivations

In the introduction to their manifesto for the digital revolution, David Kusek and Gerd Leonhard (2005, p. x) talk about a future, where music runs like water—is available everywhere and every time.¹ Furthermore they say that artists, fans and music communities will not be driven by the corporate power, but rather drive the record industries themselves. Yochai Benkler (2006), Stephen Coleman & Jay Blumler (2009), Henry Jenkins (2006) discuss in their works opportunities for greater participation and democratization in the production and circulation of information within the Internet environment. Focused on the music industries different scholars schematized communications links between the different industry entities. Andrew Leyshon (2014, p. 27) for example created the networks of the musical economy based on the works by Jacques Attali's (1984), Friedrich Kittler's (1999) and Allen J. Scott's (1999) about musical networks. He presents a highly interconnected network of the different actors within the music industries which looks very dense and industry related if there would not be a direct link between the artists and the electronic delivery channels that circumvents the whole record industries. Commenting on Leyshon's attempt, Patrik Wikström (2013, p. 50) notes the linear structure of the model, which reminds fairly on a traditional value chain. Another linear model is the supply chain². Gary Graham, Bernhard Burnes, Gerard J. Lewis and Janet Langer (2004) worked with the transformation the supply chain in the music industries will go through due to digitalization. By referring to the choice of actors (ibidem, p. 1093), the governing mechanism (ibidem, p. 1096) and the co-ordination structure (ibidem, p. 1098) of supply chains within the digital environment, they show possibilities for the artist to circumvent traditional parts of the supply chain and thereby excluding industry entities like record labels. All of this predicts a shift of the power relations between artists and the traditional music industries. The fact that the major record labels had a market share of 74.1% in 2002 (Hardy, 2012, p. 152), which did not significantly changed to a

¹ Here they are referring to David Bowie, who predicted that in the future music will run like water or electricity and which lead Krueger (2005, p. 25-27) to his famous Bowie Theory. With this Krueger argued, that because of ubiquitous music and low revenues achieved by selling records, artist would have to go more on tour in order to compensate the declining revenues.

² The difference between value and supply chains will be defined later on (cf. 3.1.1).

marked share of 73.3% in 2014 (Music & Copyright's Blog, 2015) arises doubts if a change within the supply chain of the record industries really happened.

This work is motivated by a lack of theoretical work regarding this issue. Extensive literature exist towards emancipating effects of the digitalization towards the record industries with eroding supply chains due to disintermediation. Interestingly those research receded in the recent years, but explanations why the power of majors record labels has not changed is scarce. Right here a lack of research is to be located. Of course, a more democratic and participatory environment regarding the production of information and in this case especially music is highly welcome. However, considering all the optimism, the academic focus should always rely on real structural manifestations. Power relations are not manifested by predicting certain scenarios. Of course possibilities for the production and distribution of information have radically changed, but this does not mean, that power relations shifted in the same wake. Only showing up clearly where power and control relies, helps to break down those ties. This will not be a new work in the strain of digital optimism, but an objective observation of the state of affairs in the current research of the record industries.

1.2 Research thesis and objective

The research thesis that will guide the present study is:

The record industries' supply chain has been transformed due to the digitalization of the record industries. The major record companies' point of control over the market shifted from manufacturing and distribution to visibility and attention.

The research objective lies in describing the structural change within the record industries bred by the digitalization, making shifted power relations visible and providing suggestions regarding new control mechanisms of the major record companies within the record industries for future research.

1.3 Latest state of the art and literature

Since this work is rooted within the alleged possibilities of decentralization and democratization through technological change, namely the Internet, a closer look will be put on the achievements within this field. Even though, visions about the potential and impact of the computer were still minority views, ideas about the computer as a vehicle for passionate exploration and self-expression were already seeded in the 1970's counter culture (Streeter, 2011, p. 67). Since then, thinkers and scholars were engaging with the topic of the computer and the Internet to put that piece of technology into relations to the social life. Merely one-sided optimistic strains towards digital technology are often referred to as digital optimism.

Thinking about the media within this context, scholars like Nicholas Negroponte (1995, p. 66-67) were thinking about media within the digitalized frame—new media—as interactive, whereas old media is based around passivity. It gets clear, that the computer and the Internet were seen to valorize the possibilities of the participation of the user. David Hesmondhalgh (2013, p. 316) notes, that it helps to show that those ideas are rooted in older discourses like the counter cultural ideas of the 1960s and 1970s to realize that those projections onto technology may well be desires and dreams. An important claim thereby is the erosion between the production and the consumption, which eventuates in the prosumer. A term coined by Alvin Toffler already in 1980. The assumption is that the mass production separated the consumption from the production. With the transition to an information-based economy, the consumer was supposed to be reintegrated into the production process, which would blur the lines between both (ibidem). This could be essential for the emancipation of the consumer as well as for smaller enterprises outside the scope of big cooperations regarding the production and circulation of information and cultural texts.

George Ritzer and Nathan Jurgenson (2010, p. 20-22) argue that within the Web 2.0 the prosumption has its most prevalent position. Capitalism may be transformed in the prosumer age. Why? Following their logic, the capitalists are unable to control contemporary prosumers, like they did with producers and consumers. Since the prosumer enjoys her status, she is not easily to be exploited. By producing content for Twitter, the prosumer uses the service and

that for free. Here they see a possibility to create a completely new economy. All this puts a lot of power into the hands of the prosumer, which could leverage the whole structure of industries, especially in the cultural industries. They predict, that corporations will step back and tamper less with the prosumer, since they produce and consume the content. As an example they use YouTube, which not interfere with the quality of the user-generated content, because it can store as much data as needed. With that, the consumer has free rein to produce and distribute (ibidem, p. 31).

Hesmondhalgh (2013, p. 315) describes two main issues regarding the digital optimism and the cultural industries. The first is that non-professional users or the audience have much greater levels of control, creativity and participation due to the Internet and the digitalization. That leads to the erosion of the power of industrial, professional and institutional cultural production, which is the second issue. This is based on a more democratic system of communication. In the 2000s a focus was put onto this erosion and the record industries. Alderman (2001), Anderson (2014)³ and Kusek & Leonhard (2005) wrote in their books about the disrupting structures of the record industries and predicted fundamental changes. Explicitly with the record industries' supply or value chain only a few academics spent their work on. Important works to name are Graham et al. (2004), Hadida & Paris (2013), Lewis, Graham & Hardaker (2005) and Premkumar (2003). Out of those works Graham et. al (2004) contributed the most useful work. They give a comprehensive insight how digitalization affects the record industries' supply chain. The eroding structures of the record industries, without directly referring to the supply or value chain, is described by Bernardo & Martins (2014), Galuszka (2015), Hracs (2012) and Jones (2012). All of those works are perfectly suited to describe the structural change that occurred with digitalization within the record industries. Nearly all of those studies are not going much further than describing that change and showing opportunities for the suppressed entities in the production of recorded music. In the recent years papers regarding this topic have nearly stopped to appear. One of the few scholars going a step further and questioning the democratizing effects of digitalization is Galuszka (2015), who shows that the eroded stages of

³ Published in 2004 for the first time.

the record production have been entered by new entities. None of the named scholars tries to find possible explanations, why the market share within the record industries has not really changed, even though the digitalization creates so many opportunities for independent labels and amateur musicians. Already in 1999 Richard Hawkins, Robin Mansel and W. Edward Steinmueller (p. 389) noted that disintermediation is in fact often re-intermediation. That means the intermediation functions remain even though the kind of the intermediation is changing. Also Emma Janson and Robin Mansell (1998, p. ii) guessed that key players of the industry will not let the disintermediation happen without to re-position themselves. Still they are not giving a hint how this re-intermediation will look like.

The lack of academic work towards the power relations within the record industries get visible after outlining recent research. The current work will provide interesting angles and suggestions to scrutinize that deficit. By shedding light onto the characteristic structural changes within the record industries' supply chain and shifted power relations, possible new control mechanisms will be presented.

1.4 Delimitations

This study is limited to structural changes within the record industries. All entities that are involved in creating the final product recorded music, are referred to as record industries. The plural is used, because it gives a better picture of the complexity of these industries. Leyshon (2014, p. 27) describes the network characteristics of the music industries and divides it into four main networks—creativity, reproduction, distribution and consumption. As mentioned Patrik Wikström (2013, p. 50) emphasizes the linear characteristics of this model. Following Graham et. al (2004, p. 1092) the activities of it are defined by composition, A&R⁴, recording, reproduction/packaging, marketing, distribution, retailing and consumption. Thereafter the actors of the record industries are artist, record company, distributor, retailer and consumer (ibidem, p. 1093). Of course the publisher is involved into the making of the finished product recorded music, but for the present case it can be ascribed to the artist, since the artist

⁴ Artist and repertoire.

and the publisher license the content to the record label. Additionally, major record labels own their own publishing division. Considering all those actors and networks, the plural term of record industries is more suited for this paper and it will be shown that all of them can be in control of different industry entities.

Within those shifted structures the power relations of the major record companies towards the independent record companies will be located. The record industries have traditionally been controlled by a small number of multinational companies, which are referred to as major record companies or short majors. All the smaller companies are put together under the name independent record companies or short independents/indies (Wikström, 2013, p. 65-67). Even though Keith Negus (1996, p. 42-45) questions this binary construction of majors and independents, because certain connotations are inscribed into the term, this paper will stick to those terms. Negus argues, that the construct of majors and indies can lead to over-romanization of the independent's creativity. Are they more creative only because they are not connected to major companies? Independent record companies have commercial motivations to run their business, too (Garofalo, 1994). Anyway, those questions are not relevant for this paper, because it refers to the industries' structure and power relations. The three major record companies—Universal, Sony and Warner—had a market share of 73.3% in 2014 (Music & Copyright's Blog, 2015). With that comes a huge degree of power and since power relations within the record industries are the main focus of the present paper, the dichotomy of majors and independents is a useful construct.

The work is aiming to give a structural overview of the record industries before and after the digitalization. It is not easy to draw a definite line when the digitalization of the record industries happened. In 1982 the digital format CD was introduced, in 1989 the MP3 compression format was patented, but maybe the most significant step was the lunch of Napster—a file sharing platform—in 1999 (Wikström, 2013, p. 66). With this service, MP3 technology and file sharing reached the general public (ibidem, p. 151). Since the latter two had a great impact on the record industries, the lunch of Napster shall be used as a mark to distinguish between the pre-digitalized record industries and the

digitalized ones. Hence, the old model of the record industries refers to the pre-digitalized era and the new model to the digitalized one.

1.5 Structure of the study

The present paper has five main subject areas. Those are methodology and research methods (cf. 2.), theoretical background (cf. 3.), record industry, supply chains and power (cf. 4.), the long tail, blockbuster reality and filter mechanisms (cf. 5.), as well as discussion (cf. 6.). Together they build a rough guide through this work.

In chapter two the methodology and research methods of this paper are deducted and explained. In the beginning basic decisions regarding epistemology and ontology, together with the relation between theory and research are explained and made. Derived from there, research strategies are divided into a quantitative and a qualitative approach. Locating the research proposal at hand within those paradigms and strategies helps to decide for a research method—in this case the literature review, which is a qualitative research method. What follows is a description of this method, its implementation and why it is used in this paper. The implementation will include a short introduction into Porter's five competitive forces and the supply chains, because they will be used to analyze the sources used for the review.

The third chapter will summarize the theories used to analyze the structure of the record industries. Those will be disruptive innovations (cf. 3.1), Porter's five competitive forces (cf. 3.2) and the supply chain including power relations within it (cf. 3.3). The first is a theory about the nature of technological innovation and will help to understand why the record industries' supply chain could erode. The two latter are tools to undertake research regarding competitive advantages and power relations. They are very useful to show the structure of an industry and its power relations.

After sorting out special characteristics of recorded music (cf. 4.1), the theories named in chapter three will be applied. They allow to describe this industry before respectively after the digitalization in chapter four. It will be divided into the old model (cf. 4.2) and the new model (cf. 4.3) to represent the pre-

digitalized and the digitalized era. To understand the nature of new technologies of both eras the theory disruptive innovation will be discussed. Afterwards the theory of Porter's five competitive forces, the supply chain and power relations within the supply chain will give an enhanced overview over the record industries' structure.

After making structural change visible, the approach of the long tail theory (cf. 5.1) will be discussed as a possible outcome of the digitalized record industries in chapter five. The practice of this theory by current researchers, will be outlined in the part blockbuster reality (cf. 5.2). Here, contrasting views will be presented and analyzed. To understand why the digitalization did not bring the democratizing and emancipating effect within the record industries, a particular part of the long tail theory—the filter mechanisms—will be examined afterwards (cf. 5.3).

In chapter six, findings out of the forth and fifth part will be synthesized in order to provide an interesting angle on how the major record labels could regain their dominant control over the market. This fertile discussion will provide new suggestions for further discussions. Finally in the conclusion (cf. 7.), the approach and implementation of the research propose will be critical assessed and recommendation for future research will be formulated.

2. Methodology and research methods

In order to follow the approach taken in this chapter more easily, the research objective will be repeated: The research objective lies in describing the structural change within the record industries bred by digitalization, making shifted power relations visible and providing suggestions regarding new control mechanisms of the major record companies within the record industries for future research.

When conducting research in the filed of music management, researcher face0the fact that no explicit apparatus of methods and research designs exist. The field could be located within in the cultural industries in general. Researching within the cultural industries is framed by its broad interdisciplinary characteristics and provides a meeting point for different disciplines ranging

from cultural studies, economics, management studies, political science and sociology. Each have their own research questions, theoretical concerns and methodological traditions (Doyle & Frith, 2006, p. 554-555). In the following an overview about research methodology and designs will be given in order to define the approach used in the present work.

2.1 Deductive/inductive theory

There are various considerations to take into before starting the main research project. The nature between theory and research, epistemological issues, ontological issues and the research strategy need to be discussed. Regarding the nature between theory and research two approaches exist, namely deductive and inductive approaches. Using the former approach the researcher deduces, on the basis of what is known about a certain area of interest, a hypothesis and translates it into researchable units. The concepts that make up the hypothesis specify the data that is to be collected. Hence the theory exists already and is proved by observations and findings. Working with an inductive approach is turning the described process around. Here, theory is derived from observations and findings. Both approaches contain little parts of the opposite one, when used in actual research (Bryman, 2008, 9-11). A clear cut between both cannot be made. Theory derived from inductive approaches need to be tested and the theories for deductive research need to have foundations, too (ibidem, p. 13). For the present purpose this distinction is nonetheless useful.

2.2 Epistemology

Epistemological considerations are mainly divided into positivist and interpretivist paradigms. The question regarding epistemological issues is what is regarded as acceptable knowledge (ibidem, p. 13-14). Positivism is based on the assumption that only science is the foundation for true knowledge. Hence, if something is not proven scientifically, it is not true. This is a very strict form of research, even though more moderate strains exist like the post-positivism. Positivists believe that statements of belief or fact can be confirmed and verified or disconfirmed. These statements and beliefs are stable and can be generalized. By this, the research is independent of the researcher's values,

interest and feelings. In contrast the interpretivist paradigm is related to address the understanding of the world and how others experience it. Reality is constructed. Enquiries are value-bound and value-laden. What is true or false is dependent historically, contextually and culturally bound (Chilisa & Kawulich, 2012, p. 53-56).

2.3 Ontology

Two positions are frequently referred to when dealing with ontological considerations. Those are objectivism and constructionism or constructivism. In social sciences, objectivism would propose that social phenomena and their meanings have an existence on their own. Hence, social actors cannot influence them and with that those phenomena are independent and separated from actors. Whereas constructivist views assert that social phenomena and their meanings are accomplished by social actors. With that, social phenomena and its meaning is not only constructed by social actors, but also in a permanent state of revision through them. By referring to a constructivist approach the researcher is always presenting a specific version of the reality, rather than one that is ultimately defined (Bryman, 2008, p. 19).

2.4 Quantitative/qualitative research strategies

Deductive and inductive approaches, as well as epistemological and ontological considerations can often be ascribed to quantitative and qualitative research strategies in a binary matter. Quantitative research can be described as a deductive, positivistic and objectivistic research strategy. Contrasting qualitative research can be indicated as inductive, interpretative and constructivist. Both can be described as clusters of research strategy (ibidem, p. 22). Of course, it is a rough simplification of the broad possibilities and facets both research strategies imply, but in order to provide an understanding of both, it proves to be rational. This can be the foundation for tending towards one or the other strategy, but what do quantitative and qualitative research offer? Following both strategies will be described.

A common distinction between quantitative and qualitative research includes the presence of quantification and measurement in the former and a focus on words of the latter (ibidem). It is important to note, that this is not the only difference in both strategies. The previous paragraphs made clear, that the epistemological and ontological, as well as deductive and inductive theory are distinctive features of both strategies. Anyway, quantitative research is emphasizing quantification in the collection and analysis of data. Thereby the accent is put on the testing of theories. Practices and norms of the natural scientific model and of positivism have been incorporated including a view of an objective reality (ibidem). Some of the methods used in quantitative research are structured interviews, which is one of the main methods of data collecting in quantitative research, structured observations and content analysis. Those methods are designed to analyze distinctively and systematically a wide variety of data (ibidem, p. 138). Following the emphasizing of numbers, they are seen as strong evidence of how phenomenon work. Generally, quantitative research is to be favored when a large sample size needs to be generalized to a certain object. Also trends and patterns that apply in many different situations can be analyzed very well. A negative aspect is that the context of a phenomenon is often treated as noise and gets traded for a generalization across the objects (Myers, 2009, p. 8-9).

Qualitative research has an inductive, interpretivist and constructivist stance. Those paradigms are also used to describe this research strategy (Bryman, 2008, p. 366; Nieuwenhuis & Smit, 2012, p. 126). In general qualitative research is concerned with the understanding of phenomena from the standpoint of a respondent or informant. This strategy is a mixture of the rational, explorative and intuitive. Thereby, the skills and experience of the researcher are important when analyzing data. A typical application area for quality research is the understanding of phenomena that are little known. With this, quality research helps to build hypothesis and explanations. It is common to use this research strategy to understand social and behavior science, but is also suited very well to study organizations, groups and individuals (Ghuri & Grønhaug, 2010, p. 105-106). Main research methods that are summarized under the term quality research are ethnography/participant observations, qualitative interviewing, focus groups, language based approaches such as

discourse and conversation analysis, as well as the collection and qualitative analysis of texts and documents (Bryman, 2008, p. 369). Criticism towards quality research is often articulated against the subjectivity it can imply. This refers to the often unsystematic views of the researcher what is significant and important. Because research starts in a relatively open-ended way and is then narrowed down to a research question or problem, the reader just derives a few clues why a certain topic has been chosen. Another problem is the difficulty of replication, because it is often unstructured. What the researcher chooses to focus on, is what strikes him most as being significant, so it is affected by the characteristics of the researcher. Hence, it is very difficult to replicate and test. Also a lack of transparency due the unstructured research is often addressed (ibidem, p. 391-392).

2.5 Methodology and methods used in the present paper

The approach used in the present work is a qualitative one. That derives not only from a minor focus on numbers and measurement, but from the relation between theory and research represented in this paper, as well as epistemological and ontological decisions. The aim of this work is to provide suggestions and interesting angles for future research. Those suggestions and angles will be shown after setting the structural change within the record industries into a contextual relation. Hence, the knowledge originates out of observation. This take corresponds to the inductive approach, where theory and knowledge is developed out of observation and analysis. The present paper acknowledges that knowledge is constructed. Otherwise the recourse towards secondary literature, some of it taking an historical approach, would not be possible. When researching the record industries in the pre-digital model, the reality presented is already affected by the researcher's historical and contextual environment. Additionally, structures of the record industries are not considered stable or set. They are constantly reorganizing themselves and relations towards all the entities are shifting frequently with technological, social and other change. Thus, the epistemological stance of the paper is an interpretivist one. Since the organizations of the record industries are not acting based on their structural fixation, all the entities of the record industries,

workers, managers, etc., need to be included. When the present paper is referring to the majors, the whole construct of the major record companies including all the workers, who are part of the process of producing the final product recorded music, is meant. Phenomena within the record industries are based on humans decisions and actions. This refers to the ontological paradigm of the constructivism. From decisions regarding theory/research relations and epistemological respectively ontological paradigms, the chosen research strategy, quality research, can be deduced.

The approach for the present paper will be exploratory research⁵. This approach is useful to understand and assess critical issues of problems. It is applied to analyze a problem's situation, to evaluate alternatives and to discover new ideas. What it does not provide, is the one and definite answer to those three reasons of study (Sreejesh/Mohapatra/Anusree, 2014, p. 31). Brown (2006, p. 43) states that exploratory research is applied to new problems that previous research has not or only little referred to. Since the aim of this work is to shed light onto the record industries' structure from a different angle, this design is a good foundation for the current purpose. The present paper will show that a lot of structural change happened in the record industries due to digitalization. Still, major record companies hold nearly the same market share as before the digitalization happened. In this case an observation is made—market share has not changed—, but the reason for it, is not clear. Following Ghauri and Grønhaug's (2010, p. 55) description, this problem is an unstructured one. Exploratory research is often unstructured but therefor flexible. Here the ability to observe, collect information and construct explanation, that leads to new insights, knowledge or theory is important (ibidem, p. 56).

As the research method for the present paper, the literature review will be used. Lawrence Machi and Brenda McEvoy (2012, p. 2-3) divide between a basic literature review and an advanced one. Both have different outcomes. The basic literature review summarizes and evaluates existing knowledge within a specific topic. The purpose here is to produce a position that is based on that knowledge, which is the thesis for a research project. Contrasting, the purpose

⁵ Myers (2009, p. 258) distinguishes between explanatory and exploratory research approaches. Thereby, explanatory research has its main motivation in testing, explaining and comparing phenomena. Whereas exploratory research defines its main motivation in discovering and exploring new phenomena.

of the advanced literature review is to question the current state of knowledge and to define an area for future research. Based on the current state of knowledge, the research defines suggestions and interesting angles for further research. Jill Jesson, Lydia Matheson and Fiona Laces (2011, p. 76) make a basic division into traditional and systematic reviews, where the first is exploring and developing new ideas, as well as identifying research gaps and the latter is answering a specific research question. Further, they divide between traditional review, conceptual review, state-of-the-art review, expert review and scoping review. Thereby the latter is setting the frame for future research agenda and can be compared to Machi and McEvoy's (2012, p. 3) advanced literature review mentioned above. The literature review is well suited for the purpose of presenting what has already been done in research regarding a certain topic and to suggest further topics.

Jesson et al. (2011, p. 83) provide three steps for the analytical process of a scoping review. This literature review type is preferred to the advanced literature review, because it is even more focused on revealing research gaps and exploring new research areas (ibidem, 76). The first step is obtaining theory and examples applied in research. The second step includes reading and defining the approach the critique will take. Here, the question of how to access the data used for the research should be answered. After analyzing the sources in step two, research suggestions and gaps that arose are articulated in the third and last step. Those three steps also correlate with the three major components of quality research named by Ghauri and Grønhaug (2010, p. 107), namely data, interpretative or analytical procedure and report. A general structure of the paper has been already thematized in the introduction, because of that, focus will be put on step two and the question who the data will be accessed.

In business research, qualitative techniques like SWOT or PEST analyses have been applied in various works. Those were used to identify key strengths and weaknesses of businesses or business environments (Doyle & Frith, 2006, p. 563). In order to structure the environment and power relations of the record industries and locate the major and indie record companies within it, Porter's (2008) five competitive forces and the supply chain theory will be used to access the current state of the research for the current work. The frameworks of

the five competitive forces and the supply chain provide useful variables that allow to compare the record industries before and after the digitalization. It is essential to understand the industries' structure to be able to address power relations. Therefore, a foundational perspective regarding the competitive advantages, organizations and environment of the record industries is needed. Porter's five competitive forces are a great framework to achieve such a perspective. In understanding those structures, possibilities of institutions to defend themselves against competitive forces and to shape them get much clearer (Porter, 2008, p. 81). The five competitive forces focus mainly on the macro level of the industries. Additionally, the supply chain helps to identify where power relations among institutions occur within the process of producing recorded music on the micro level. In the manner of descriptive research, the record industries are examined. After locating the major and indie record companies within the digitalized record industries and the old model with help of the five competitive forces and the supply chain, differences will be examined. By this, structural changes get visible, which help to describe the shifted power relations within the record industries. This will show where current research has put its focus on recently. Of course the usage of the five competitive forces and the supply chain is simplifying the complex and fast evolving nature of the record industries, but it helps to focus on the main structural shifts that happened due to digitalization. Since the chosen method is a literature review, the recourse towards secondary data is self-explaining. Mainly published, external sources will be used for this research. Since it is about the state of the current academic research, those external sources are academic books and periodicals.

Using this methodological approach and research methods, the record industries will be contextualized within the structures of Porter's five competitive forces and the supply chain. Thereby, structural shifts will get visible and academical approaches towards this topic can be contextualized. Approaching this topic from another angle, will provide suggestions for future research. This approach is very well suited to fulfill the above mentioned research objectives (cf. 1.2).

3. Theoretical background

Three main theoretical concepts will be used in the paper at hand. Disruptive innovation (cf. 3.1) is essential to understand how new technology affects industries and why the disruption of the music industries' structure and supply chain could happen in general. Describing the structural change only would not explain why external entities could take over main function of the supply chain in the wake of the digitalization. To fully understand the structural change, how and why it happened needs to be clear.

The field of strategic management only occurred on the surface of academic discipline in the late 1960s. Porter's five competitive forces (cf. 3.2) offer a structured and analytical approach. It integrates industrial economics and firm strategy (Chan-Olmsted, 2006, p. 162). With this framework Porter belongs to the field of the industrial organization economics, which is more focused on the industry structure and competitive position within industries. Whereas later in time, the focus in the field of economics shifted towards firms (Hoskisson et al., 1999, p. 419). Porter's five competitive forces is especially useful, because even though it focuses on the industry single entities or groups of companies, it can easily be located within the framework. When comparing the old and the new model of the record industries' shifts of competitive advantages will get visible. In the present paper, the observations from Porter's tool will be transferred into the supply chain framework (cf. 3.3). This will help to analyze the relation between different segments of the supply chain and gives disclosure about the power relations. The framework of the five competitive forces and the supply chain are used, because they offer a perfect combination between the macro and the micro level of the record industries.

3.1 Disruptive innovation

Technological discontinuities can be defined as innovation that leads to changes in production and processes of industries that bring a critical advantage in price-performance (Tushman & Anderson, 1986, p. 440-441). Referring to changes in the hierarchy of an industry's sector, scholars (ibidem, p. 442; Henderson & Clark, 1990, p. 28) divide in their works between innovation that enhances and innovation that destroys competence. Building on the work of Henderson &

Clark (1990), Clayton Christens and Richard Rosenbloom (1995, p. 233) are making a distinction between technological innovations that serve the incumbent firm's customer's needs and those who address needs outside the incumbent firm's value network. A value network can be described as "the context within which a firm identifies and responds to customer's needs, solves problems, procures input, reacts to competitors, and strives for profit" (Christensen, 1997, p. 32). Thereby the value is a function of the dominant technology. Within one industry, different value networks can exist and have very different rank ordering of important product attributes (Christens & Rosenbloom, 1995, p. 240). In the record industries vinyl records and cassette tapes are two different value networks. Both serve the ability to store recorded music, but the product attributes are very different. Vinyls are made to present an high fidelity sound, whereas cassettes have a focus on mobility. Hence, cassettes have a lower sound quality, but vinyls cannot be listened to while walking through the streets. The cassette established a new performance trajectory. Christensen (1997, p. 9) argues in his theory of disruptive innovation⁶ that incumbent firms only are successfully implementing innovations, if the new technology improves their product performance. New technologies that are not meeting the incumbent firm's value network result in failure for the industries' leading firms. Those are disruptive innovations. In Christensen's (ibidem, p. 13) study of the hard drive industry, even with simple innovations incumbent firms took always the lead, as long as the innovation was sustaining their core business. Innovations outside the value network of incumbent firms were led by industry entrants (ibidem, p. 24).

By examining pioneering works of disruptive innovations including their critical response, François Moreau (2009, p. 21-22) defined disruptive innovation as followed. The products resulting from disruptive innovation underperform in comparison to the attributes appreciated by main stream consumers. Thereby, a distinction can be drawn between new market disruption and low-end disruption. The former introduces a new dimension of performance and creates a new market for new consumers. Whereas the latter provides reduced

⁶ François Moreau (2009, p. 22) noted that Christensen used the term disruptive technology in his first works about the topic and later switched to disruptive innovation. The technology itself is not disruptive, the problem is more selling the new technology to the customers of incumbent companies. In the present work the term disruptive innovation is used.

performance, but supplies a less expensive solution. Another characteristic of disruptive innovation is that those products are often cheaper, but are not appreciated by mainstream consumers. Because of this, those products are often introduced to niche markets, where the innovation and its technology can mature and improve. As niche-markets he defines emerging markets or a segment of a mainstream that is over-served and has receptive consumers for low-cost offers. Those characteristics lead incumbent firms to the conclusion that it is not worth investing in disruptive technologies, even though better margins can be achieved. It seems not to be a financially rational decision. Over time the performance of those products improve significantly. Thereby, it is not important to suppress the performance of traditional technologies. The question is more if the new technology will improve so much that it is good enough to be used by the costumers of a certain market segment (Christensen, 2006, p. 50). Here the performance of the product is important. Rebecca Henderson (2006, p. 10) argues that it is less about the improvement performance of a disruptive product, but about if it meets the costumers needs. Shifted pattern of preferences in a market have been a result of many disruptive innovations (Moreau, 2009, p. 22). While disruptive technology matures in niche-markets, leading firms stick to their technology. Once the new technology is accepted by mainstream users, leading firm lag behind in knowledge and product offer.

In order to understand the disintermediation within the record industries and its supply chain, the theory of disruptive innovation will be helpful to locate the structural change. It will help to understand, why disintermediation happened and why the digitalization was not used as a sustained innovation in the first place.

3.2 Porter's five competitive forces

Already in 1979 the Harvard Business Review published an article by an economist named Michael E. Porter. In this article he described forces that shape strategy and started a revolution in the business strategy field. Over the years he worked on that approach, which resulted in the five forces that shape industry competition. This model helps to understand the structure of an industry and the factors that define its competition. In the model of the five

competitive forces, Porter (2008, p. 79) describes customers, suppliers, potential entrants and substitute products, as well as the rivalry among the competitors. They shape the nature of competitive interaction within an industry.

3.2.1 Threat of new entrants

New entrants can shake up competition, because they bring desire to gain market share and new capacity into the industry. This can have an impact on prices, costs and the rate of investment necessary to compete. The case of Apple within the music distribution business shows how critical it can be if new entrants come from other markets via diversification. In this case existing structures and financial resources can be used to enter successfully into new markets (ibidem, p. 80).

Barriers to entry are advantages, incumbents have towards new entrants. Porter (ibidem, p. 81-82) names and describes seven of those mechanisms that prevent companies from the threat of new entrants. First is the supply-side economics of scale, that occurs when producers of larger volumes can achieve lower costs. Here the barrier is that new entrants need to step into the business on a large scale to be able to compete. If the buyer's willingness to pay is dependent on how many other buyers buy a certain product or service, Porter calls this demand-side benefits of scale. This happens if buyers trust larger companies more than others. The new entrants have the problem to get the buyers to buy their products. A strategy to achieve this could be lowering the prices, but those need to be recouped, too.

With this comes another factor that could hinder new entrants namely the customer switching costs. Those are the efforts and costs that occur for a buyer to switch from one product/service to another. How much effort and money does it cost to buy from a new supplier? Are product specifications altered? The higher the customer switching costs, the harder it will be for the new entrants.

Capital requirements are the fourth entry barrier, but should not be overstated too much, since in attractive markets, investments are recoupable without problems. But it can still be a barrier, because not every new entrant has the financial back-up to finance start-up losses, build inventories, extend costume

credit or fixed facilities. Major corporations can handle those investments, but for smaller entities it could be an entry barrier.

Incumbency advantages, independent of size, are called the fifth barrier. Different sources can provide those advantages: established brand identities, proprietary technology or access to the best raw materials. Unequal access to distribution channels could be a part of this point, but Porter made it an own entry barrier, because it has a certain significance.

The more limited distribution channels are and the more they are under control of existing competitors, the harder is the entry for new entrants. This can go so far, that entrants need to bypass the distribution channel and build up their own, because the barrier is too high.

The last barrier is restrictive government policy. This is the case in regulated industries like liquor retailing or taxi services. Other could be expansive patents or environmental regulations. Of course, governments are not only a barrier for new market players. In other cases they can make entrance easier.

3.2.2 Bargaining power of suppliers

A powerful supplier is in the position to charge higher prices, shift costs to buyers or limit the quality of the products. If a supplier or supplier group is powerful, depends on certain characteristics. Important is that the supplier group is more concentrated than the group of buyers. Additionally, it is relevant if the supplier relies heavily on the revenues of the buyer. In case the buyer is responsible for a small percentage of the suppliers revenue, the supplier can extract maximum profits. The other way around, the supplier would try to warrant the buyer or buyer group with reasonable pricing or assisting in activities like R&D. Again switching costs matters, too. If it is expensive to change the supplier, buyers can be dominated by suppliers. Peculiarities of the products are another interstice factor. Products that are differentiated, hence are not easy to copy, bring power to their supplier. With that comes the replaceability of a product or a service. If there are simply no alternatives, hence no substitutes, available, power is shifted to the supplier. To enhance this power, suppliers can integrate forward into the industry. In case other industry

participants generate more profit in comparison to the supplier, they will prompt to enter the market by setting up own enterprises or by buying the supplier (ibidem, p. 82-83).

3.2.3 Bargaining power of buyers

The flip side of the last paragraph is the power of buyers. They can make higher profits by forcing down prices or stipulate terms like better quality. By dominating the suppliers market, they can also play industry suppliers off against each other. Large volume buyers have negotiation leverage especially in industries with high fixed costs, hence when economics of scales work for the supplier. But the volumes need to be large relative to the size of a single vendor. Is the buyer in the situation where she can find equivalent products easily, buyers tend to play off vendors against each other. The same happens when low switching costs occur. If vendors are too profitable, buyers can threaten them to integrate backwards. By doing so, they have power over negotiating conditions and prices (ibidem, p. 83-84). Like the supplier's power, buyer's power is a complex construct depending on various factors. It is important to differentiate between end buyers or intermediary buyers, since the latter are suppliers, too.

3.2.4 Threat of substitute products or services

The forth force is the threat of substitutes. Here it is inevitable not to think too narrow. Because substitutes can be very different from the industries' product. They can also appear downstream or indirect. In the case of the music industries, a substitute for a record could be a DVD but also going to a concert. Even not buying a record at all, is a substitute or listening to an old one over and over again, instead of buying a new one. The better the relative value of an substitute, the higher the threat that one's product will not be purchased. This is strengthened if the buyer's cost of switching the service or product is low. It should always be alerting if structural changes happen in industries. Attractive substitutes can occur in external markets formerly not threatening at all (ibidem, p. 84-85).

3.2.5 Rivalry among existing competitors

The rivalry among existing competitors is the last factor Porter describes. He shows how rivalry among existing competitors can be limiting for an industry's profitability. The degree of how negative rivalry is, depends on its intensity and the basis of it. Rivalry is most damaging for profitability if it is only based on pricing. Here profits are directly transferred from the industry to its costumers. Rivalry based on dimensions by contrast is less likely to damage profitability. Dimensions are for instance product features, support services, delivery time. Here costumer value is improved, which leads to higher prices. This type of competition is also good to differentiate a product or service towards substitutes and raises the barrier for new entrants (ibidem, p. 85-86).

Porter presents a very good framework to analyze industries, which is not too widespread but still sharpens the view on the most important characteristics. Additionally, it is helpful to locate actors within these framework. Especially in the recorded music industries, the market is very concentrated. The biggest labels are owned by conglomerates, which are in the business for profits. By looking at where the profitability lies, points of control and power can be made visible. Following, a look at the supply chain of the record industries will be taken to get an even better insight of those points.

3.3 Supply chains and power relations

3.3.1 The supply chain

It is an easy way to criticize the supply chain as being simplistic. This reaction is comprehensible, since the process from a raw material to a vulnerable end product or service happens within a network of linked-up relations is complex. In contrast, it can be contended that this argument is missing the point. Supply chains are very useful to simplify a complex reality and are thereby powerful metaphors for understanding the eclectic, interactive nature of business to business relationships in the context of value creating mechanisms. To realize one's position within the supply chain, is a key to business success, because power relations within this network are mostly temporarily (Cox, 1999, p. 211).

The concept of the supply chain is principally based on Porter's (1985, p. 36) concept of the value chain, which is reflecting a companies strategy. Often value and supply chains are used complementary, because both are concerned with the process of enabling flows of products and services within business networks and both apply to the same networks of companies. In a simple way, one can say that supply chains look at the process regarding downstream flow of goods and services, hence from the source to the customer. Whereas value chains flow the other way around. Here the customer is the source of value, which is passed from one stage to the other (Feller, Shunk & Callarman, 1996, p.4).

Harland (2009, p. 37) gives a good overview over the four different uses of the term supply chain management and with that over different uses of the supply chain. One usage is to describe the internal flow of materials and information within one company. Here the chain goes from the inbound to the outbound end of materials and information. On the other hand, supply chains are used to analyze dyadic relationships between immediate suppliers and buyers within industries. The third usage enhance the latter, by including the supplier's supplier and the buyer's buyer, while the forth usage is looking at a network of interconnected businesses to show a complete picture of the activities that are required to produce the end product or service.

Since the 1980s, the interest in supply chains has constantly grown—especially from the middle of the 1990s on (Giannakis, Croom & Slack, 2004, p. 12). This is resulting in a multitude of academic works about and definitions of supply chains and supply chain management. In the work of Cox, Ireland, Lonsdale, Sanderson and Watson (2013, p. 4), the authors mention that the main concern of the majority of academic works regarding supply chains, is about the management of product creation and flow. Thereby, the aim is focused on the efficiency how to deliver the product or service in a better and less costly way to satisfy the end consumer. Interesting is also the importance of the physical aspect, moving the physical product from one location to the other, in most of the works. Supply chains can be defined as a series of stages, which use a

multitude of resources to transform raw material into an end product or service and deliver these to the end consumer (ibidem; Giannakis et al., 2004, p. 3).⁷

For this work, putting the weight on efficiency issues is not productive. Cox et al. (2013, p. 6) argue, that the strategy for the supply chain should focus on the acquisition and exploitation of the supply chain and market power, hence the pursuit of rents.

For this work a perspective putting the weight on the efficiency issues is not productive. Not to say that efficiency is not playing an important role in the process of transforming songs into vulnerable products, but it is not useful for researching the power relations within the supply chain and with it the major record companies' center of control. Cox et al. (2013, p. 6) argue, that the strategy for the supply chain should focus on the acquisition and exploitation of the supply chain and market power, hence the pursuit of rents.

What are rents? These are earnings in excess of breakeven. It is important, that those earnings do not induce new competition, which distinguish them from profits. There are Ricardian rents, named after David Ricardo, and monopoly rents. Whereas the latter are based on exploiting a dominant position, Ricardian rents occur by limited resources, that enable one company to produce cheaper than another one. With this, bigger earnings can be generated in a sustainable way (Peteraf, 1993, p. 180-183).

The different stages from the raw material to the final, consumed product within the supply chain can be named intermediaries. Each stage intermediates between the upstream and downstream stage. Relations between those stages can erode if one stage becomes obsolete due to substitution or structural change. Especially due to the digitalization, stages of supply chains can become obsolete. This can happen because of cheaper production methods or means of distribution. Alina M. Chircu and Robert J. Kaufmann (1998) discussed this topic broadly and name three main changes of supply chain relations—intermediation, disintermediation and reintermediation. The first occurs when a new firm sets itself up between buyers and suppliers or among

⁷ Important authors to be named regarding the definitions of supply chain management: Oliver & Weber (1982); Jones & Riley (1987); Ellram (1992); International Center for Competitive Excellence (1994); Harland (1994); Berry et al. (1994); Cooper et al. (1997); Lee & Ng (1997); Handfield & Nichols (1999); Kimchi-Levi et al. (2000) & Ayers (2001) (cf. Giannakis et al, 2004, p. 3).

other intermediaries. If a middleman is pushed out of the market, they call it disintermediation. Finally reintermediation is achieved if a once disintermediated entity re-establishes itself as an intermediary (ibidem, p. 110).

The purpose of this paper requires to take a closer look on the relation between the different blocks of a supply chain. Cox et al. (2013, p. 6-7) are looking at this exchange relations from the point of supply chain assets in order to shed light on the power balance and its effect on the flow of the supply chain. Critical assets are possibilities to close the market for a particular supply chain and to upstream suppliers. The next part will build on this concept to define the occurrence of power relations within supply chains.

3.3.2 Power relation within the supply chain

Power can be considered as an essentially contested concept. There are groups of people—for example academics—disagreeing with the proper use of a term and challenge its meaning. They are contesting it and their concept will be contested as well (Gallie, 1956, p. 169-170). Numerous of philosophers and scholars have been discussing the concept of power. This leads to a multitude of different concepts, ethics and definitions in various disciplines. Important modern thinkers that discussed the term power are Hanna Arendt, Zygmunt Baumann, Michael Foucault, Niklas Luhmann and Max Weber to name a few. Most of them work with the term in the context of society or politics, what does not make them less productive for the present case.

One of the most popular concepts of power stems from Max Weber (1922) and is defined as every chance to have one's will even despite the will of the other. Lukes' (1974, p. 27) definition of power works in the same manner as the one of Weber. He says that power is exercised towards B, when A affects B in a contrary manner than B's interests. Since Cox et al. (2013, p. 18) refer to Lukes' definition, it will be the foundation for the current paper, too. They use this concept, because here power is relative. It cannot be accumulated or stockpiled and no company has power in all contexts. Since, there is always some reciprocal interest included when thinking about buyer-supplier exchange, power cannot be the only foundation of those relations.

Within supply chain management, power relations have been a relatively unknown term until Cox et al. (2013). A broad focus onto lean supply by scholars, who suggest that firms should be more open, trusting and collaborative, could be the reason for paying no attention to power (ibidem, p. 20). Only little work has been done within the field of power and supply chains. By looking at the buyer-supplier relation from the side of the buyer, Ramsey (1994, p. 125) made visible possibilities for the buyer to convert potential into power by referring to the attractiveness and availability of the resources offered. Another approach was undertaken by Frazier and Anita (1995), but mainly concerned with the use of communication to exert power. How long term business relationships can create power relations, examine Keep, Hollander and Dickinson (1998). Here they show how those relationships can affect entry barriers because of partner power (ibidem, p. 42).

None of those papers treat the dynamics of power relations in buyer-supplier exchange relations in a comprehensive manner. By using Emerson's (1962) power dependency relations, Cox et al. (2013) create an approach to make buyer-supplier relations more comprehensible. The dependence of actor A towards actor B occurs because of two variables. The first is how big the motivational investment of actor A is towards the goal mediated by actor B. The availability of those goals for A outside the A-B relationship is the second variable. Thereby, the power is part of A defined by the amount of B's resistance that A can overcome. Goal is thereby defined in a very broad sense and refers to gratification consciously sought after. Available other goals refer to alternative avenues of goal achievement, which are often other social relations (Emerson, 1962, p. 32). This power definition looks to be heavily inspired on Weber's thoughts and concepts. Referring to Emerson, Cox et al. (2013, p. 20) build their research around the two variables resource utility and resource scarcity, in order to make power relations in supply chains visible.

Following a closer look at resource utility will be undertaken. Resource utility is constituted out of two factors: operational importance and commercial importance. From a buyer's perspective, the former is simply the question if the resource is indispensable for the firm to fulfill its goals. In this process, the existence substitute has to be incorporated. From the suppliers point of view,

the situation looks a little different. Here the buyer's expenditure is important, which is the commercial importance of the resource. This is dependent on the ratio of the expenditure to the suppliers total revenues, as well on the regularity and predictability of the buyer's expenditure. Hence, is the buyer's expenditure in a low ratio to the supplier's total revenues and irregular, then the operational importance for the supplier is low.

The other variable is resource scarcity to determine if a firm has critical assets, hence a possibility for a position of structural dominance. In the essence this variable is about imitability or substitutability. To take it in other words: If the resource is easily to imitate and in demand, then it is very likely that several companies provide this resource. Is the resource expensive and complicated to imitate only a few companies will offer it and with that the resource is relatively c (Cox et al., 2013 , p. 31-33).

Cox et al. (ibidem, p. 35, 37-39) conclude several isolating mechanisms to protect the resources' scarcity. Among them are property rights, collusive cartels, as well as first-mover advantages like economics of scale, information impactedness, causal ambiguity, reputation effects, buyer switching costs, buyer search costs and communication good effects.

For the present purpose, economics of scale and property rights are the most important mechanisms. The advantage with the former occurs by huge fix costs involved on the production or in the service delivery. These costs can act as an entry barrier, because competitors cannot easily earn enough profits to recoup their investments. The latter are state given guaranteed ownership or control over a relative scarce resource for a specified period and under given conditions. Intellectual property rights like the copyright can be counted to the latter. It guarantees certain rights for a creative work for a specified time.

4. The record industries, supply chains and power

The record industries and the music industries in general served as a topic for a multitude of literary works. From various perspectives, authors and scholars tried to shed light on the development of the music industries. Since Paul Hirsch (1970), one of the first to analyze the music industries within an academic

framework, pictured the music industries as a filtering process, a lot of research have been done. Phil Hardy (2012) wrote a very informative book about the transformation of the record industries due to digitalization. Not only structural change is in the center of his research. He also provides a comprehensive overview about the conglomeration of the recorded music industries. Another great work is Patrick Wikström's (2013) book *The Music Industry*. This remarks a very good introduction into the field of the music industry, because Wikström captures the dynamics at work in the production of music culture by including the international conglomerates, the independent labels, as well as the public. A more broad perspective provides *Cultural Industries* by David Hesmondhalgh (2013). Here the industries that create cultural goods are examined, which gives a valuable inside within the structures and theoretical frames of the cultural industries that the music industries are part of. Additionally, good reads regarding music industries, its transformation due to digitalizations, history and structure are Hull, Hutchison & Strasser (2011), Jones (2012) and Tschmuck (2012).

This chapter is not about repeating the history of the record industries. The titles named in the last paragraph give a good overview about that topic. What is of interest now, is the structure of the record industries. This will enhance the understanding about the power relations and key characteristics of the record industries. Before the old and the new model are analyzed, distinctive characteristics of the actual product that gets sold, will be explained.

4.1 Cultural texts

In this section light shall be shed on the characteristics of music as a cultural text. This is important, because cultural texts differ from normal industry products. Their distinct features are important for the structural change of the record industries. The nature of cultural texts like books or records are very special. In both cases the medium is just the package in which the copyright content is delivered. The book is the package for the authors' creation and the record is the package for the musical content to be delivered to the consumer. It is the content that holds the value of the product. Those products are called information goods (Towse, 2009, p. 58). Taking a look from the economical side,

information goods are public goods. The problem with these kind of goods is that they are non-excludable and non-rival. If somebody has listened to a CD, this does not mean that somebody else cannot listen to the same CD, too. The enjoyment of the first listener is not reducing the enjoyment of another one. A CD cannot be used up like food or cloths. Additionally a CD can be heard without paying for it. This happens when someone buys a CD and a friend is listening to this CD. One can benefit from the good without a compensation for the producer (ibidem). Those peculiarities are the reason, that music is not scars per se. The packing, hence the CD or LP, is low in costs when it comes to the industrial reproduction. Therefore, record labels need to achieve the scarcity that gives value to the product in an artificial way (Hesmondhalgh, 2013 p. 30).

The cultural text music is also a special commodity, because several rights are connected to it. The copyright of a work includes the right to copy it, make adaptions of it, issue copies of the work to the public, perform it in public as well as broadcast it. When the work is getting recorded, performers and the company that organizes and publishes the recording is obtaining neighboring rights (Frith & Marschall, 2004, p. 7-8). The composer of the work can sign an agreement with a publisher which helps promoting the work. Traditionally, the publisher would contact a record label in order to get the artists work recorded. In this situation the composer and publisher would give the copyright to the label (Wallis, 2004, p. 104). Hence, the copyright has been cleared already before the physical medium containing the work is produced and distributed.

4.2 The old model

The following chapter will take a short look into the emerging technologies during the era of the old model. After that, the structure and the competitive environment of the record industries of that time will be analyzed with the help of Porter's five competitive forces. This will reveal the location of competitive advantages within the industries. Those findings will get a narrower observation with the help of the supply chain framework, which is enhanced by Cox et al.'s (2013) deliberations of power relations within supply chains.

A long time producing sheet music was the core of the music industries. During the end of the 19th century, a new sound-recording technology emerged.

Primarily developed by Edison, Columbia and Victor, it started a transition in this core operations of the music industries. In the beginning, recorded music was rather seen as a mean to sell the hardware than as a business model. However, in the 1920s the importance of the record became more and more visible. Even back then, a high concentration among the record companies was given and the market was dominated by three companies, namely RCA/Victor, EMI and CBS (Wikström, 2013, p. 62-63). Especially from the 1960s onwards, record companies started to become huge conglomerates. The big companies bought up smaller and financially troubled ones, so that only a few significant independent labels were able to survive in the beginning of the 1970s. This had the advantage for the majors to compensate the missing knowledge in certain genres (Tschmuck, 2012, p. 148). Out of this, an oligopoly market with a small number of multinational companies occurred, the majors controlling a substantial part of the global recorded music market.

The distribution is central in this construct of majors and indies. Majors realized that the key to profit lies in the distribution. Once realized, they bought successful independents for the content and build up their distribution network. In the 1980s the market for distribution was nearly completely dominated by the majors (Garofalo, 1994). By the early 1990s, only nine major distribution companies controlled the UK market and only five of them controlled over 85% of the distribution market (Leyshon, 2014, p. 33-34). This is also an important step towards managing the risk of working with creativity. The majors expanded steadily their control over reproduction, distribution and marketing and production of the cultural text. This was achieved by means of vertical integration. It can be said, that the majors had control over the circulation of cultural texts and this is their primary way of achieving scarcity of cultural goods. Other as important ways are advertising, copyright and limiting means to reproduction (Hesmondhalgh, 2013, p. 31, 33).

Generally speaking, the music industries are systems of delivering music to costumers (Hull et al., 2011, p. 30). For the part of the record industries, it is a system of delivering recorded music to costumers. This simple but significant definition puts a focus on a very important fact. Of course in the production of a record, value is generated at various stages, but at the end the distribution is a

significant step. Here an important node between the record label and the ultimate consuming customer is located.

The model of the record industries before the digitalization was based on selling physical goods—recorded music. Typically, recording artists create content and assign their right to a record label. Often an A&R manager scouts the artists and mediates between them and the record label. In exchange the artist gets certain services and a cut of the revenue. It is critically important to sign to one of the major labels in order to reach a large audience. Basically record labels scout talent, front production costs and market artists recordings. Due to the strategy of risk spreading, they lower their risk. Hereby ,they invest money in several artists knowingly that only a few will generate profits.⁸ These few artists generate enough money to recoup the total investment in the sum of the artists. If the record is produced, the label will work with firms, which are often subsidiaries that manufacture and distribute the physical product to retail outlets (Slater, Smith, Bambauer, Gasser, Palfrey, 2005, p. A1-1). Hull et al. (2011, p. 30) are categorizing the old model as fitting into the industrial age, because music is delivered by products like sheet music in the beginning of the 20th century and later records. Again a focus is put on the distribution of physical texts.

4.2.1 Disruptive innovation

Disruptive innovation did not appear until the digitalization in the record industries. New technologies were competence sustaining and served the majors' value network. All technological changes like radio (1920), vinyl (1948), audiocassette (1962), Walkman (1979) and the CD (1982) had no real impact on the distribution and promotion activities of the majors. The distribution channels were not affected, because only the support changed. Musical content was still distributed via physical formats. The radio and vinyl technologies were enhancing the promotion of the majors, because radio created the star system and vinyl singles promoted album sales. The other technological innovation had

⁸ In 1997 an industry insider from Sony said, that they expect only two out of ten signing to recoup their initial investments and to generate profits in the long run (Dustry, 1999).

no impact on the promotion. All of those technologies can be described as sustaining innovations (Moreau, 2009, p. 23).

4.2.2 The five competitive forces

4.2.2.1 Threat of new entrants

What are the possibilities for the major labels to defend their superior position within the market? Porter (2008, p. 81) showed different entry barriers, which can be used to exclude new entrants from the market that have been discussed earlier in this paper (cf. 3.2.1). One of those barriers was the unequal access to distribution channels. By tying up the distribution channels, majors have a huge control over new entrants. In the record industries, major companies often own the distribution channels and thereby can dominate independent labels and new entrants. Following the structure of the record distribution in the old model is shown.

A record industries' executive once said that one of the definitions of a major record company is that they are in the distribution business and that they don't want to be simply a provider of content to someone else's electronic delivery system. In the same breath questioning, why they would empower someone else to do it (Burnett, 1996, p. 2). If a record will be a success or failure is largely based on the ability of the record label to gain attention via TV, radio, printed media exposure and the effective distribution of the copies to retail shops (Dustry, 1999). On a quick view that sounds totally reasonable. But major labels have started to vertically integrate into the music industries. Burnett (1996, p. 16) remarks that the production and distribution of records became rapidly concentrated by a small number of large conglomerates. These exercise increasing control over their market sector. With the vertical integration, conglomerates acquire control over distinct stages in the making of a record. This went so far, that they control the path from the creative idea until the consumption. Major labels in the old model had a virtual monopoly on the distribution of records and that was the most critical one (Jones, 2002, p. 217; Jones, 2012, p. 106).

Control was with those who owned the infrastructure of distribution (Jones, 2002, p. 217). Keith Negus (1999, p. 55-60) describes perfectly the situation

how a major monopoly in distribution effects smaller labels. With the help of his explanations entry barriers and control mechanisms can be made visible. The following paragraph is based on Negus' observation. In the struggle to maintain control over the production and consumption of music distribution, divisions of major record labels play a significant role. Their main task is to have an overview over the stock movements within the warehouses. The goal is not to press too many records, which would lead to wasted storage space, but also not to produce too few records in order to not lose money. Originally their task was only to get the company's product into the shop, but this department developed into a much more powerful role. Actually the distribution division had a lot contact with various departments and had an important say regarding how many records were about to press. Distributors were charging labels, also the ones in the same conglomerate, for the use of the warehouse space as well setting up distribution fees. With this, labels within the corporate group are liable for any stock keeping units, since the label owns the inventory. If excess inventory is generated, which is defined by the number of the stock keeping units that exceeds the number of sales of the last 12 months, a higher fee is assessed to this excess. It gets clear, that pressing too many records can easily be a financial disaster for a specific release. A delicate detail is, that if the distribution division of a corporation has the influence of how many records are going to be produced by any label division within the company, they have control over the record manufacturing and distribution of their external contractors, too. Minor and independent record labels have their own established businesses, but often missing distribution channels. Independent label owners often need to dispute over the number of manufactured and shipped items with their major distributor. The issue is that major distributors can constrain indies by not pressing enough records. One indie representative said, that major distributors can put an indie out of the business. There was a case where the distributor's analysts did not agree with the independent about the amount of records to be pressed. The distributor argued that a certain record will only sell 10,000 copies, but the indie was sure to be able to sell 40,000. Later the indie was short of 30.000 records. This resulted into no income for the independent until the missing copies were pressed. Of course, a

major distribution deal can have advantages for the indie too, but it has to be recognized that distribution division has a lot of power and control inherent.

Additionally major corporations acquired distribution intermediaries such as Rack Jobbers (Lewis et al., 2005, p. 351; Tschmuck, 2012, p. 147). Those are companies rent or setup shelf space in hypermarkets, warehouses and retail stores. Having control over them equals having control over what will be sold in the supermarket, since shelf space is limited. Later in the last century big retailers tried to lure people into their shops, in the hope they will buy other items with bigger margins, too (Negus, 1999, p. 56). So they needed to sell hit records that attract people. This will be discussed later (cf. 4.2.2.3).

The latter observation shows how much potential of control is hidden in the division of distribution. In a competitive market like the record industries, this is one of the key factors to gain rents. Those control mechanism are also useful when the major wants to release an important record to delay or cut the amount of competitor's releases. This is connected to the entrance barrier of capital requirements (cf. 3.2.1). Since distribution is in the hands of the majors, an own distribution network would be an expensive investment, which has to be recouped before it generates a surplus. For an indie, this is hard to achieve.

4.2.2.2 Bargaining power of suppliers

The power of suppliers is an interesting force. Since the majors are very well vertically integrated, they have control over the whole supply chain (Burnett, 1996, p. 16). Musicians can be considered their suppliers, since they bear the creative idea. Even though this is a little controversy, because Negus (1994) notes that the record industry is not a system, where the text is flowing through without being transformed. But still, the musician provides a raw material, which is transformed through value adding to an end product. Jones (2012, p. 61) remarks that music companies are terribly powerful in this situation. He says that cultural texts neither sell themselves nor organize themselves as salable and because music companies control the access to the market, musicians have to convince the labels to get signed. For musicians, the majors have a high utility and are scarce too, since there are more musicians to be signed than labels. Hence, from the supplier side the market is relatively weak. Especially

the majors have a great potential of power over their suppliers. Only successful artists have a certain negotiating power, but they are already in the system of the industries. In this situation the supplier side has power, because the financial utility for the majors is high, otherwise music corporations dominate their suppliers.

4.2.2.3 Bargaining power of buyers

The other side of the supply chain has to be looked at from two different perspectives. There are two different kinds of buyers. On the one side retail shops are the buyers of the product, but the ultimate end user are the consumers. Due to market power and vertical integration, the majors dictated terms towards marketing and distribution to less powerful traditional retailers like record shops (Hracs, 2012, p. 449), but the non-traditional retail shops became relatively powerful in the 1990s. Between those various shops competition became bigger and bigger. They cut the prices on CDs and considered them as loss leader. Hit releases were offered to a cheap price in order to gain the consumer's attention. With the consumers in the shop, they hoped to sell other items that provide a higher profit margin than CDs (Negus, 1999, p. 56). Still in 2008, Wal-Mart was the second and Best Buy the third biggest music retailer in the USA after Apple. This makes the relevance of shelf space visible. The difference to a record shop is, that electronic shops and super markets are not dependent on selling records (Hardy, 2012, p. 119-120).⁹ At one point Wal-Mart for example made 20% of the majors' revenues. On the opposite side records were responsible for only 2% of Wal-Mart's revenues. Still, nearly all of the 5,000 CDs an average Wal-Mart stocked, were major titles (ibidem, p. 127-128). This situation makes the market less profitable for the majors, but in comparison to their indie competitors they still had the dominant position. Even though records are not responsible for a big part of Wal-Mart's revenues, Wal-Mart needs the hit records to attract costumers. The power relations are not completely one-sided.

⁹ This was also causing pressure towards traditional record shops, since supermarkets and electronic shops sell CDs as loss leader and can cut the price without really loosing profits (Hardy, 2012, p. 121).

A lot of discourses exist towards the active audience especially within the cultural studies based in the Centre for Contemporary Cultural Studies. Scholars highlighted the way in which meaning is produced through consumption (Willis, 1990, p. 98). Even though cultural texts are produced by corporations, those academics focused on the tactics by which corporate forces can be coped with or resisted (Fiske, 1989, p. 8). Hall (1992, p. 130-131) for example exemplified the construction of meaning with his encoding/decoding theory. Thereby, a certain meaning is encoded into the cultural text by its creator, but exactly this meaning can be decoded in various ways and does not have to mirror the decoders' intention. Here the power lies in the consumer of the text not the producer. Most of those studies are based on information and meaning. The question is, if the heads of the corporations are interested in information and meaning. At the end, they are in the business to generate profit, because they are part of huge conglomerations. On the other hand, being active as audience does not mean to have power and influence (Negus, 1996, p. 35). It is not easy to define the real power relations between record labels and audiences in the old model. Graham et al. (2004, p. 1096) point out that consumers are restricted in terms of choice by the record companies. Due to the dominating visibility of their products via marketing and distribution, the majors definitely create a certain superior visibility. To find independent records, a general interest has to exist in order to start being active and search for those items. It looks like the majors nearly excluded independent records out of the people's everyday life.

4.2.2.4 Threat of substitute products or services

The threat of substitutes is two folded. It would be a threat for the record industries, which mainly sell records, if other formats occur that provide the listener with the same experience on a cheaper price (Porter, 2008, p. 84). The cassette for instance was a threat, because it enabled the user to copy music, still on a lower quality level. Even though in the western industrial nations the cassette could not substitute the record (Tschmuck, 2012, p. 164). With the CD for example, the industries used the new technology to generate growth. Still, with Sony and Philips as producers the CD was connected to major labels from

the beginning (ibidem, p. 166). Like already shown in part 4.2.1 the threat of substitutes regarding the format was not given. The distribution was still based on a physical medium and power could not be diminished. Hence, technological innovation in these days were sustaining the majors dominant position. On the side of the audience, substitutes could be going to the cinema or going to a concert. Those are not direct substitutes, but would pull the wallet share away from the record industries. For the purpose of this work those substitutes that lead to other activities of the audience are irrelevant, because the focus lies on the structure of the record industries.

4.2.2.5 Rivalry among existing competitors

Taking the majors as a whole, only little rivalry between them and the indies can be noticed. This could be based on the high concentration in the market and the superior position due to the control over the market. There have been two big merger manias in the recording history. The first was between 1965 and 1975, here the conglomerates developed (ibidem, p. 147) and the second between 1985 and 2003 (ibidem, p. 174). The oligopoly characteristics occurred in these times. Especially the last period is impressively documented in Hardy's (2012) book *Download!*. It seems the force of rivalry does not effect the dominant position of the major record companies. Oligopolies have usually lower rivalry among the few large dominant companies (Wikström, 2013, p. 34).

This compact overview about Porter's five forces shows, that major record companies have a very high degree of competitive advantages. It looks like one of the foundations of this dominant position is the control over distribution of recorded music. By having influence on the manufacturing of records and on the visibility in retail shops, major record companies act as gatekeepers. Subsequently the distribution within the supply chain will be examined.

4.2.3 The supply chain

There are not a lot of academic works existing regarding the topic of the supply chain in the record industries. The few works that are dealing with it, are

concerned with the change of the record industries' structures due to the digitalization, which is also part of the present paper's topic. Mainly the research findings were based on decentralization and democratization of the record industries. In the following the supply chain for the old model of the recorded industries will be shown and explained.

Lewis et al. (2005, p. 351) describe the supply chain as a rather linear construction. Music is provided by the artists and gets produced, manufactured, marketed and distributed by the record company, which tries to exploit the their revenues from the content. They recognize that the power and control of the supply chain are basically in the hands of the record company. Lewis et al. (ibidem) admit that all majors operate their own distribution companies, but are not assigning power to them in their paper. Rather this is just mentioned while describing the record industries' supply chain.

Graham et al. (2004) discuss the record industries' supply chain with the help of Hardaker's and Graham's (2001) four interrelated dimensions of supply chains. Those four are structure of activities, the choice of actors, the governance mechanism and the co-ordination structure (Graham et al., 2004, p. 1091). While explaining the supply chain of the record industries in the old model, the static and linear structure gets visible. The structure of activities is describing the natural sequence of process connected to the manufacturing. It is shown, that the traditional model is based on serial interdependent activities and a process of value creation that has a sequential linear logic (ibidem, p. 1091-1092). The old model of the record industries has already been described as highly vertical integrated when it comes to activities and resources (cf. 4.2.2). This is also a problem of this structure of activities' depiction. From composition over A&R, to recording, reproduction/packaging, marketing, distribution, retailing and consumption every step is dependent on the previous one. The same occurs with the choice of actors. Because of the high concentration, the supply chain has been very static in the old model and has not changed since the establishment of the commercial recording and distribution of music. Through the ownership of core competences (cf. 1.4) by the majors in all segments, the choice of actors is very limited (ibidem, p. 1093). Already discussed likewise has been the dominant position of the major labels due to vertical integration.

Through economics of scale and the control over distribution, this dominant position is sustained. This is mirrored in the governing mechanism shown by Graham et al. (ibidem, 1096). Because of the natural sequence of processes, the coordination structure is shaped in a dyadic fashion. Communication, mostly in form of orders, is organized in a hieratic structure. It flows sequentially and linearly through the supply chain.

4.2.4 Power relations in the supply chain

When looking at the record industries' supply chain it instantly gets clear that the distribution is the last segment before the retailers, hence the point of sale. Having strategic advantage here seems to be a bottleneck. As described above Cox et al. (2013) said that that power in the supply chain is dependent on resource utility and scarcity. In this situation the independent labels are the buyers since they do not possess their own distribution networks. For them the utility of the resource distribution is enormous. Substitutes for this deep seeded network of the majors are not easy to find. Even nowadays the biggest independent labels work together with major distribution companies. In 2014 a consortium consisting of Beggars Group, Domino Records, Merge Records, Saddle Creek and Secretly Canadian's Secretly Labels Group re-signed a distribution deal with ADA, the independent music distribution arm of Warner Music Group. Only after creating a consortium they had enough negotiation power to get better deals (Christman, 2014). On the side of the major distributors the importance of the buyers is ambivalent. At one point distribution is working with economics of scale as shown above. Hence, the more products flow through the system the more profitable. Considering the high market share of the majors, it is to be assumed, that indies needed majors more than vice versa. This leads to the fact that distribution is a scarce resource in that supply chain. Because of high initial costs, independent labels have problems in building up their own networks. This is an isolating mechanism after Cox et al. (2013, p. 35). Being a scarce resource and having a high utility for the indies makes distribution a critical asset for the majors. High control and a dominant structural position can be derived from that. In the old model major record companies had control over their competitors. Majors have enough power to

interfere the release schedules of the indies. That affects the indies, who in result have to do things they would not do otherwise, like pressing less records than planned. That is exercised power over the indies, which correlates to the definition of power after Emerson (1962, p. 32) mentioned in chapter 3.3.2. Of course, distribution was not the only superior factor. Financial support from the conglomerates, economics of scale in general and good contacts in the marketing segment made the majors an attractive contract partner for artists. With that, labels were able to source big acts. But still owning the critical assets, distribution and manufacturing, makes a difference. Structures with marketing partners can change, even though it is unlikely, because media outlets and the majors need each other. Owning the distribution and manufacturing networks means direct control over production and distribution of the own and competitor's content.

On the other side of the distribution, the power relations were two-folded. Big market chains had a dominant position especially in the 1990s. The utility for the shops like Wal-Mart lies in the fact that the majors deliver attractive products that pull costumers into the stores. But the revenues generated by the majors' content were not really important for the big supermarkets. For the majors, entities like Wal-Mart were very important, because they generated a big chunk of the revenues. From the point of scarcity it is maybe balanced. Only the few majors had the very popular content. On the other hand there were not unlimited hyper market chains with the size of Wal-Mart (cf. 4.2.2.3). In the end, the majors needed the big supermarket chains more than vice versa. Whereas the traditional shops had it much harder. The main distribution channels were owned by the majors, hence those channels were scarce for the record shops. Also in record shops, economics of scale are working and with that they need popular content. So the utility of the majors' content was high. Traditional record shops were not unimportant for the majors, but the majors had the dominant position.

In this chapter, the record industries' structure before the digitalization has been described. A quick look at the nature of the technological innovation in that era showed that those were no threat to the dominant position of the majors. By

utilizing Porter's five competitive forces, a general overview over the record industries could be provided and showed that the competitive advantage of the majors lies within the entry barriers for new entrants and is mainly bundled in the ownership of distribution and manufacturing. This observation was put into a more narrow focus by using the supply chain. Here the relation between directly neighboring stages of the distribution could be examined. The majors' dominant position and their power can be located on the interface between the independent record labels and the majors' distribution division. Here, a bottleneck emerges that allows the majors to exercise power towards the indies. In the following chapter the same frameworks will be applied to the digitalized record industries to make possible changes visible.

4.3 The new model

The change within the music industries due to the digitalization has been a topic for a multitude of books. A magnificent introduction into this topic is provided by Patrick Wikström (2013). He not only includes the pure business side of the industries, but also the audience, which is supposed to be more active than before. Literature that addresses the music industries before the digitalization often excludes audience from the discussion or leave the topic for cultural theory scholars, who work with the audience on a more abstract level. Today the audience takes more the center stage of considerations about the music industries. Another author, already mentioned, is David Hesmondhalgh (2013) who examines the whole cultural industries and makes continuities and changes visible. Focusing only on the business side is Phil Hardy's (2012) contribution to the topic. He concentrates on how the major labels reacted to the changes that came with the introduction of the mp3, especially on the economical side and how industry managers reacted too slow regarding technological change.

In a more revolutionary manner, other authors picture a very positive outcome of the digitalization. They estimate the decentralizing and democratizing power of the structural change. Those views are often summarized under the term digital optimism. Lawrence Lessig (2008), a cofounder of the creative

commons¹⁰, wrote about the vast opportunities of user generated content and how the cultural industries developed into a hybrid-economy—a mixture of free and commercial activities. Like a revolutionary handbook looks David Kusek's and Gerd Leonhard's (2005) work, not only because of the subtitle *Manifesto for the Digital Music Revolution*. Something in-between optimism and an objective look at the digitalization gives John Alderman (2001)

4.3.1 New dimensions of the digital environment

As the new model, this paper refers to the post-digitalization model of the music industries (cf. 1.4). Hull et al. (2011, p. 30) locate the new model within the information age, whereas the old model was embedded in the industrial age with music delivered through physical products like sheet music and records. In the new model, music is delivered as content not via physical products, but digitally via the Internet. The delivery and reproduction systems are characterized rather diffusely. Wikström (2013, p. 5) provides three fundamental dimensions to understand the changed environment of the new digital mode. These are connectivity vs. control, service vs. product and amateur vs. professional. Those dimension are important to understand the structural change that happened within the record industries.

For the first dimension, connectivity vs. control, he uses the term connectivity taken from network theory to describe the environment of the new digital model. Connectivity is measuring how well different members of a network are connected with each other. A high level of connectivity represents that most of the members are connected. This allows them that information, money, fads, norms can easily flow between them. In the old system there was only a strong connectivity between the record industries and the audience. Among the individuals only weak connections existed. This provided the record labels with a lot of control over their costumers and the flow of music. Now, nearly all members of the system are connected, which weakens this control (ibidem).

Another distinctive feature of the new model is music as a service. Substantial characteristics for a service are the simultaneous production and consumption,

¹⁰ An organization that “develops, supports, and stewards legal and technical infrastructure that maximizes digital creativity, sharing, and innovation” (Creative Commons).

as well as the integration of the user as an external factor. Without consumption no distribution of the content happens. A streaming service acts as a broker for the content producer. Since the user is consuming the content, she is a substantial part of the service (Dörr, Wagner, Benlian, & Hess, 2013, p. 386). Less control and high connectivity are a part of the new model. This makes it harder to charge premium prices for records, since the physical goods are disconnected from the content. Once uploaded, it is universally available. On the other side possibility exists to charge the service to provide basic access to information, hence music, and with that helping the user to navigate (Wikström, 2013, p. 6-7).

The third dimension is amateur vs. professional. Lessig (2008, p. 36-37) refers to the pre-digital mode as read-only culture. Here the user is not doing much but consuming¹¹. Again, the business model of the industries is depended on the controlling of the distribution of copies of cultural goods to create scarcity. The new mode is read-write. Here users can combine and remix elements of the read-only culture (ibidem. p. 77). Through to the high connectivity and low reproduction/distribution costs non-professionals can create, remix and publish content online. That does not mean, that every member of the audience automatically is a amateur musician, but a reasonable high amount of users create and upload content (Wikström, 2013, p. 7).

4.3.2 Impact on the distribution and manufacturing

Majors viewed the Internet as a threat towards their investments in distribution and manufacturing, hence their role as a middleman between musicians and consumers (Meisel & Sullivan, 2002, p. 16). The new model has an impact on the reproduction and distribution of recorded music. Now the costs for reproduction and distribution is virtually zero (Jones & Mendelson, 2011, p. 164). Daniel Nordgård (2016, p. 178) argues that the distribution costs are kind of the same. Independent record labels need to distribute their content via content aggregators, who take a fee and the online music services charge a fee, too. That is right, but because no physical goods need to be distributed in

¹¹ As already discussed, consuming is not only a simple passive act. The cultural studies discussed this already in the 1970s. Therefore, Lessig's formulations regarding the read-only culture sound a little too simple.

the digital model, the actual act of distribution is cheap. In combination with the high connectivity and the availability of multimedia computers, consumers were enabled to distribute content easily and cheaply. Formerly, the activity of copying and distribution was reserved for entities with high financial facilities (Slater et al., 2005, p. 5-6). Those barriers almost completely disappeared. Since the manufacturing and distribution were means to create scarcity in the old model, this structural change is significant. The possibility to limit the supply of music content is virtually obsolete in the digital environment. In this situation it is almost impossible to regain the control and limit the connectivity of the network (Wikström, 2013, p. 90). With that, the artificial scarcity created in the old model is eroding. Furthermore the copy generated by users is a perfect copy, without loss of quality (Slater et al, 2005, p. 6). This makes it difficult for record companies to charge for selling copies.

The popularity of mobile devices is making the need for physical goods less important. Kusek and Leonhard (2005, p. 3), referring to David Bowie, compare the music in the new model with water—ubiquitous and free-flowing. Using the metaphor water, they argue that people do not really think about spending money on water and that the costs for it, are woven into the monthly expenses. Nobody would think about paying for water every time one takes a shower. In the same moment people are willing to pay for special water in comfortable packing—bottled water (ibidem, p. 8-9). Ten years ago, Bowie predicted that music will be like water. In certain cases Kusek and Leonhard were right. Spending a certain amount of money for a subscription-based streaming service feels normal for a lot of users.

4.3.3 New entrants/new services

After years of peer-to-peer file sharing¹² and several attempts of providing legal options to purchase music, the first online aggregator accepted by majors opened its virtual doors. In 2003, Apple opened its iTunes online music store, but selling MP3 files was not the main generator of profit. In fact, Apple used the iTunes store as a marketing tool in order to sell their iPods (Hardy, 2013, p.

¹² For a comprehensive account about peer-to-peer file sharing and its development see Alderman (2001) and Witt (2015).

98-99, 113). Trying to prevent users from reproducing digital files and recreating scarcity, effort was spent on the development of digital rights management (DRM) systems. This was not easily to achieve, because of different rivaling software, hardware and telecommunication companies. Later in the first decade of the 21st century, DRM systems became more moderate (Hesmondhalgh, 2013, p. 343). In 2007 Amazon announced, it would launch a digital music online store, but only if the files were DRM-free. Also Apple achieved a deal with EMI to release selected works DRM-free and soon after Apple other online shops got DRM-free deals with all the majors (Hardy, 2013, p. 213). This attempt to create scarcity was unsuccessful.

At the end of the first decade of the new millennium streaming serviced gained popularity. Among all streaming services, the most known are Spotify, Deezer, Pandora, Rdio and Last.fm. Some of them offer free but ad-supported access to music streams, as well as ad-free subscription services (Tschmuck, 2012, p. 193). The old model was built around creating a sense of ownership.¹³ That was the case with shops like iTunes, too. Most of the subscription services are based on providing access to the music content. As long as the user is paying the subscription fee, she can listen to the music, which is only available via the software provided by the streaming service. No copies, only temporary in the cache, are made on the computer or mobile device of the user. As soon as the money stops flowing, the access is denied (Wikström, 2013, p. 118).

There are two significant characteristics with the online streaming services and shops. As mentioned above, an average Wal-Mart stocks 5,000 CDs (cf. 4.2.2.3). Retail shops have a limited amount of space and because of this, it is important for the majors to work closely together with companies like Rack Jobbers or better owning them. In the online trading, shelf space is unlimited. Rhapsody offered 4.5 million tracks in 2008, which Chris Anderson (2014, p. 23) calls the long tail, which will be discussed in a subsequent section (cf. 5.1). Today Spotify and Apple Music offer over 30 million songs each (Alexander & Sisario, 2015). In 2011 76% of the record music market was controlled by the major record labels (Wikström, 2013, p. 75, 77, 79, 81).

¹³ Even though costumers only own the physical carrier when they buy a record. What they do not own is the content on the carrier The buyers do not have the right to copy the music for example (Frith & Marshall, 2004, p. 6).

The key for independent online music sites is to get access to the catalogs of the majors (Meisel & Sullivan, 2002, p. 21). Since online services need as much content as possible to be attractive for the consumer (Tschmuck, 2012, p. 192), the major record labels' content is inevitable to run those services. Getting access to the majors labels' repertoire, requires an agreement between them and the online services. Copyright combined with their huge repertoire is what gives the majors a dominant position towards online services. The big disadvantage for online music shops is that the copyright is not embedded in a physical good, hence the record. The traditional retail shop sells the tangible good where the right to copy and distribute already has been granted. The online shop needs to get in contact with the copyright owners (Galuszka, 2015, p. 260, p. 268). Here the majors are not only negotiating about distribution rates per stream, but remuneration for the all-encompassing access in general.¹⁴

Quietly the three big labels Warner, Universal and Sony obtained 10% to 20% ownership, collectively, of streaming services like Spotify and Rdio. While striking a deal with SoundCloud, Warner acquired up to 5% of the company. Those assets are not bought for normal market prices. Rather the labels take the stakes for free or on a discounted rate including options to buy further discounted assets in the future (O'Malley Greensburg, 2015). Most of those deals never go public, because they are non-disclosure agreements. A contract between Sony and Spotify regarding the distribution of Sony's repertoire from 2011 was leaked in the beginning of 2015 by the Verge (Singleton, 2015). In this contract Spotify was obliged to pay \$42.5 million in recoupable advances over three years. This included a most favored nation clause that kept the advances rising in case a competitor strikes a better deal. Sony Music was also given \$9 million in ad spots on Spotify during the three year term.

Streaming will be the most important way listeners consume music in the following years—downloads will decline. Until 2020, the users of on-demand streaming services will grow to one billion, which is nearly double as big as in 2015 (Mulligan, 2015, p. 16). That makes streaming the most important means to consume music in the future.

¹⁴ Already in 1996 a making available right was included into the WIPO Copyright treaty. In article 8 it gives the author or composer the exclusive right to make their work available to the public. That means that members of the public get access to these works from a place and at a time individually chosen by them by wire or wireless means (WIPO, 1996).

It gets visible that the structural changes, caused by the digitalization, shook up the foundations on which the record industries existed in the last 50 years. A higher and fast-speed connectivity among all the actors of the record industries and a change from tangible products sold in retail shop to virtual services diminished the possibility to exert control over the flow of music content for the record labels. How this effected Porter's five forces and the music industries' supply chain will be shown in the following segments. But before that, the theory of disruptive innovation gives indication of why this technological innovation was not used in a sustaining way by the majors like they did with the emerging technologies in the old model.

4.3.4 Disruptive innovation

The theory of disruptive innovation helps to understand why the disintermediation within the record industries could have happened in general. Serious academic work regarding disruptive innovation and the record industries that not only questions how but also why is not easy to find. In a comprehensive manner François Moreau (2009) combined these two fields and explained in his study why the digital technology in the record industries has a disruptive nature. His definition of disruptive technology has already been referred to in chapter 3.3. The following part is addressing Moreau's (2009, p. 22-26) observation regarding the record industries.

A MP3 file is underperforming regarding a traditional CD for the mainstream market. Consumers that are comprised by this market are middle-age consumers rather than teenagers. The MP3 is underperforming because of missing sleeves, liner notes, lyrics and photos. Additionally, it is inferior regarding the sound quality. Keeping in mind that every support change was improving the quality of sound, the significance of the MP3's sound quality gets clear. The effects of costs for manufacturing and distribution have already been mentioned in this paper, but digital files were considered to be of interest for only a small niche segment of the market. Reason for that, is the fact that download speed was very slow in the late 1990s. In 2001 less than 10% of the US households had broadband Internet access. The first portable player for the MP3 was released in 1998, but could only store 60 minutes of music. By 2005

the penetration of portable MP3 player in the US was still under 10%. Both technologies were not wide-spread in the beginning of their appearance. Two other reasons were given for the record industries not to believe in the new medium. First, buying recorded music was positively correlated with income, but the potential digital market was directed to low-end consumers. Second, in the 1990s CD sales were still growing. It was not until 2001 that CD album sales began to fall. Furthermore, on digital platforms like MySpace the MP3 was used as loss leader to gain attention and reputation for the artists' music. With the opening of the iTunes store the unbundling of the album format happened. The target group here consisted of over-served consumers, that did not want all the tracks a CD had to offer. In the online market single sales make up for 60% of the online sales, whereas offline they account for less than 0,1%. At the end of the 1990s it was not financially rational to invest in online music because of the lower profitability of single track sales and the niche markets online music attracted. However, typically for disruptive technologies, online music matured and transformed from a niche to a mainstream market and the penetration of portable MP3 players reached 47% in the US by 2010.

A disruptive innovation has always to be connected to the challenge it represents to standard business models (ibidem, p. 27). Allan Afuah (2001) argues that companies that are vertically integrated into the old technologies have it harder to face innovation, especially when the innovation is competency-destroying or in Christensen's words disruptive. Between the first portable MP3 player in the market in 1998 and the majors' opening towards subscription services in 2008 are lying ten years (Moreau, 2009, p. 27). Valuable time in which entrants from outside the record industry could mature their technologies and gain advantage towards traditional technologies. In the following chapter structural change that resulted from the disruptive nature of the online music technology will be examined.

4.3.5 The five competitive forces

Porter's five forces already helped to locate the major record companies within the old model (cf. 4.2.2). Following a closer look will be taken to see if the

digitalization had effects on competitive advantages and their location within the record industries.

4.3.5.1 Threat of new entrants

In the chapter 4.2.2.1 that in the old model the vertical integration of the major record companies and with that the control over manufacturing and distribution is the biggest entry barrier for new entrants (cf. 3.2.1), hence a means to keep the threat of new entrants low. Light was shed on the high connectivity and the virtually zero costs of reproduction and distribution in the new digital environment (cf. 4.3.1; 4.3.2). Chircu and Kauffman (1999, p. 110) call it disintermediation, when a middleman is pushed out of a market niche. The transformation of the streamlined structure of music distribution forced the majors to cede their power to new entrants in the retailer market (Hracs, 2012, p. 450). Already in 2002, Jones (2002, p. 223) pointed out that disintermediation will have the greatest consequences for the music industries, but that a completely de-industrialization of popular media would be very unlikely.

The majors are cut out of the supply chain, when it comes to digital distribution. Because the shelf space of the online stores is endless and the costs to set up a distribution network are obsolete, major record companies could not retain their dominant position at this significant entry barrier. Due to the high connectivity, suddenly aggregators stepped into the business. This connected single artists and independent labels, which were not able to deal directly with music online services and mobile platforms like Amazon, Apple or Google. In this moment the majors were circumvented and lost a significant part of their power.

The effects of disintermediation are explained by Francisco Bernardo and Luís Gustavo Martins (2014). If possible, independent artists and labels try to circumvent traditional intermediaries. Some of their interviews revealed that partly independents set up a business model completely based on disintermediation and sometimes they use a mixed approach. The latter only use traditional intermediaries if really needed (ibidem, p. 21). A reason for it can be that still in 2020, 40% of the recorded music revenues will come from

physical sales according to a forecast (Mulligan, 2015, p. 5). Hence, also in the near future the traditional model will not completely disappear.

Anyway, independent labels are now able to release their music online without drawing on the majors networks and knowhow. Maybe one of the easiest ways to bring ones music directly to the consumer is the online service Bandcamp. Labels and musicians can easily sell or share their music via this service, without even thinking about any of the major distributor rules and costs. This mirrors Wikström's (2012, p. 6) characteristics of the new model as high connectivity and low control. According to that, technologies lower the barriers that restricted the distribution of information, hence cultural texts. Theoretically, everybody has access to upload cultural goods into the network. Thereby, the hierarchical system of the record industries erodes. This opens the market for new entrants and makes it less profitable for the majors, since competition rises. This gets even clearer, when looking at the supply chain of the record industries in the next chapter.

The disruptive nature of online music destroyed competences of the majors, distribution and manufacturing. Re-intermediation for example in distribution happened. Aggregators who mediate between small labels/artists and online retail stores/streaming services fulfill the same task as a traditional distributor, but operated by new entrants.

4.3.5.2 Bargaining power of suppliers

It was shown that majors do not control the access to the market anymore and Tschmuck (2012, p. 271) remarks that it is basically possible for anyone in the world to offer music to the public. What does that mean for the power of the supply for major record companies? Being able to circumvent the majors as intermediaries between musicians and consumers should lower the majors' power. Due to this, direct access relationship between producers and consumers makes the record industries redundant (Breen, 2014, p. 80). Maybe one of the most cited case studies is Radiohead's *In Rainbows* album. In 2007, after ending their contract with EMI, they released this album on their own via their website. Here they used a completely non-typical way of selling the album. Fans could pay what they wanted including nothing at all. The Internet market

research company comScore said the album was downloaded approximately one million times and 40% of those downloads were paid on average \$6 for a download. On average this makes \$2.40 revenue per download—potentially more than the share they would get from EMI. Later the album was released via the traditional channels (Wikström, 2012, p. 113; Elberse, 2014, p. 188-191; Hardy, 2012, p. 226-228). This is a good example how to circumvent the record industries for areas the labels are redundant and later using their channels for purposes too big to handle oneself. On the other side it has to be noted, that Radiohead is an internationally successful band with a huge fanbase. Any other unknown band could have done the same, but would probably not be successful. It can be assumed that major labels have it harder to negotiate with their superstars, but maybe that has always been the same.

As long as physical formats are still on the market and generate revenues, major labels should have a dominant position towards the artists. At the end, the labels have financial resources for marketing and promotion that artists need. Who will pay an advance of \$100,000 for an artist if the label is circumvented? That means the concentration on the record industries' side, when it comes to entities with financial backup, has not changed. Channel functions are only circumvented when the alternative is working as effective as the original channel and takes over the same tasks (Elberse, 2014, p. 192-193). Hence, the supply-side bargaining power has only a little altered with the digitalization.

4.3.5.3 Bargaining power of buyers

The buyer's side has changed significantly in certain ways. Already in the 1990s superstores like Wal-Mart used records as loss leaders to attract costumers and certainly sell other more profitable items (cf. 4.2.4). What happened was that traditional music retailers had to close their businesses because of the competition from the online retailers. In between 2000 and 2003, circa 1,200 music shops had to close down in the United States and even giants like Tower Records and Warehouse Entertainment declared bankruptcy. Specialized shops were now replaced with diversified hypermarkets like Wal-Mart (Hracs, 2012, p. 449-450).

Since they are not mainly interested in selling records, they depend less on the record industries in general and that lowers the power of the majors. The same happened with iTunes in the online market. For Apple selling songs was not their business model. Basically iTunes functioned as incentive to get the costumers to buy iPods, iPhones and iPads which had a much higher margin. Regarding Amazon nothing else can be said. Selling records is just not their main business (Tschmuck, 2012, p. 191). Otherwise the majors would have never allowed the unbundling of the album format. Selling single songs is not as effective as selling a whole album, which is bundling several songs.

Only the streaming services have to face a dominant business partner, since they rely on the content of the record industries. It was already shown how much power major labels exercise over streaming services (cf. 4.3.3). The content owned by the majors was plain to important to run the streaming service. With that, a weak buyer relation for the streaming services emerged.

The audience as buyers faces a broader supply on music. The shelf space is unlimited and with that the choice. They also gain more power by being able to choose single songs instead of whole albums. With the unbundling of the album, format buyers get the choice to buy only those songs of an album they are interested in, instead of being forced to buy a whole album. Due to the greater choice, the possibility exists to access other content than the majors'.

The audience is now able to create original content and remix loaded content from the Internet. Which gives them more agency than if they would only be able to consume. Still the law restricts them in the ability to make those works public. Lessig (2008) analyzed this topic perfectly in his book *remix*. In case real users produced and uploaded content, autonomy could exist, but user-generated content gets very little exposure on platforms like Youtube (Hesmondhalgh, 2013, p. 352-353).

The unlimited choice of the consumer is problematic, too. The consumers have the possibility to search for and download a multitude of different music from hundreds of genres, but at the end the iTunes store excessively promotes the same top 40 hit singles that are played in the radios on heavy rotation (Hracs, 2012, p. 452).

Maybe one of the the biggest bargaining achievements of the listeners due to digitalization is file sharing. This enables consumers to decide if they pay in order to listen to a record or not. Record labels responded to this with a huge legal offense towards the file sharer, best described by Alderman (2001).

4.3.5.4 Threat of substitute products and services

The threat of substitutes has shifted in the new model. With the development of the MP3 and new modes of distribution, substitutes regarding embodiment of the musical content as well of the place of distribution and retail occurred. The possibility to consume music is ubiquitous in the digital environment. Users have a variety of free and non-free options to choose from, when listening to music. File sharing is the worst alternative in the eyes of the record industries, because no money flow is generated into their direction and the industries have no control over the information flow. Wikström (2012, 102-117) gives an excellent overview of the different models, the new online services are based on. This goes from single download with membership option or without as in normal retail stores, to streaming services that are ad-based or financed through subscriptions. According to a forecast, revenues from physical sales will decline down to 40% compared to 60% digital until 2020 (Mulligan, 2015, p. 5). New players entered the field of distribution and retailing. As shown before, not all of them are interested in selling music in order to generate their main income. What gets clear is, that the foundation of the old music industries' business has changed dramatically. The control over manufacturing and distribution has been lowered due this new services.

4.3.5.5 Rivalry among existing competitors

Regarding the rivalry within the industries, it seems nothing has changed. The market shares of the big three Sony, Universal and Warner have changed only slightly in the last 12 years. In 2002 the market shares looked as following: BMG 10.9%, EMI 12.2%, Sony 13.8%, Universal 25.4% and Warner 11.8% (Hardy, 2012, p. 152). Keeping in mind that Sony and BMG merged in 2004 (ibidem, p. 173), Universal bought the record division of EMI in 2011 and Sony the publishing division of EMI in 2011 (ibidem, p. 290). 12 years later, Sony had

a market share of 29.5%, Universal 23.0% and Warner 12.5% (Music and Copyright, 2015). It looks more like the market has been divided and will stay like this for a long time, since only three major labels are left and the legislators are unlikely to allow an even higher concentration. The named mergers have been a struggle on their own rights (Hardy, 2012). After all those decades, the market is still an oligopoly.

This overview of the main changes of the five competitive factors shows, that the structure of the record industries became very unstable regarding the majors' control mechanisms. Main entrance barriers collapsed and new buyers entered the market with different motivations than traditional record retailers. High connectivity enables members of the record industries to circumvent major record companies as intermediaries when it comes to production, reproduction and distribution. Even though new intermediaries stepped into the role of distributors, the majors are not in control of those channels. The audience has more agency, too. If they do not want to pay for music, they can circumvent the whole process of purchasing music and download it easily at home. Despite all those changes, market shares stayed quite stable, which could show that dominating power relations of the majors still exist. In the following chapter the supply chain will help to make this transition more concrete.

4.3.6 The supply chain

The supply chain of the old model showed, that a huge portion of the majors' dominant position within the record industries is founded on the ownership of manufacturing and distribution channels. Due to the digitalization, those channels disrupted dramatically in the online sphere. Has the center of power shifted? Which entities rely on each other? Those questions are going to be considered in the following section.

Coming back to Graham et al.'s (2004) four interrelated dimensions—structure of activities, the choice of actors, the governance mechanism and the coordination structure—and how they changed (cf. 4.2.3). First, the structures of activities are discussed. Because none of the major companies own online sale

services were successful, they started partnerships with online distribution companies. Now activities are not happening in a sequential logic, but in complex constellations. Resources as well as capabilities get shared within partnerships and collaborations. Most importantly, the activities happen parallel and simultaneously, belonging to different value creating processes (ibidem, 1092).

Looking at the choice of actors makes the disintermediation visible. The supply chain is now dynamic with a high flexibility in the choice of actors, because there is no more need for physical distribution and entry barriers are removed. The relationship between the single entities is described as ad-hoc with an rising business opportunity and a new combination of organizations coming together (ibidem, 1093-1094). Figure 1 shows that artists and record labels work together with new service companies and that labels can be circumvented by the artists. In the same way an independent label is not dependent on the major labels' network.

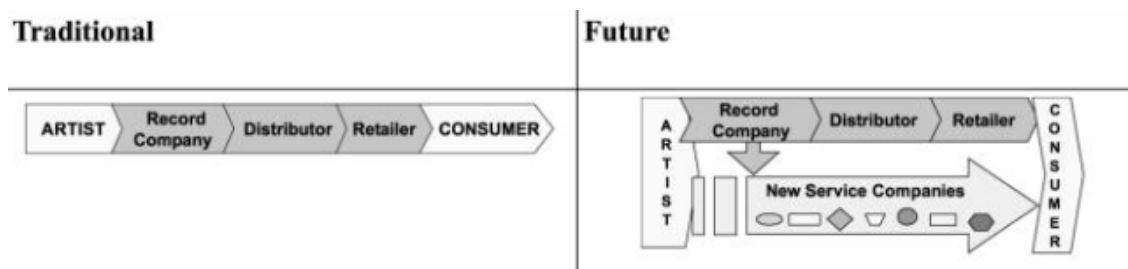


Figure 1. - The choice of actors
(Graham et al., 2004, p. 1093)

In the old model competitive advantage was generated via vertical integration, which lead to economics of scale and scope. In the new model vertical integration does not guarantee any longer the same amount of competitive advantage. This is supported by decreased transactions and production costs, which lead to low entry barriers. The result is the loss of the gatekeeper position of those labels with ownership of the distribution and manufacturing channels, hence the major record labels. Due to this elimination, artists and independent labels gain more control over their music and activities. Interviewees from the record industries told that they believe that big artists will still sign record deals in order to profit from the marketing knowhow. Thereafter, the supply chain

splits into entities circumventing it and others going traditional ways (ibidem, p. 1096). This also corresponds with the iron law of distribution explained by Elberse (2014, p. 192). Channels only get eliminated if someone else steps up to take over the essential function. Some channels like distribution and manufacturing are eliminated in the online sphere but still exist in the traditional model.

Figure 2 shows the higher connectivity of the different actors within the record industries, also described by Wikström (2012, p. 5-6). Furthermore, it shows that most of the communication between those actors happens in the virtual sphere. The role of communication outside of it becomes less important, in other words the movement of physical goods. With increasing product offers, virtual coordination is needed that provides possibilities and platforms for entities to find each other. Those virtual coordinators guide organizations and individuals to the information they require. As a result, new virtual coordinators step into the communication process and new virtual intermediaries become central points. This softens the dyadic and hierarchical structure of the supply chain. Everybody can communicate with everybody and artists as well as labels start to communicate directly with their costumers (Graham et al., 2004, p. 1098-1099).

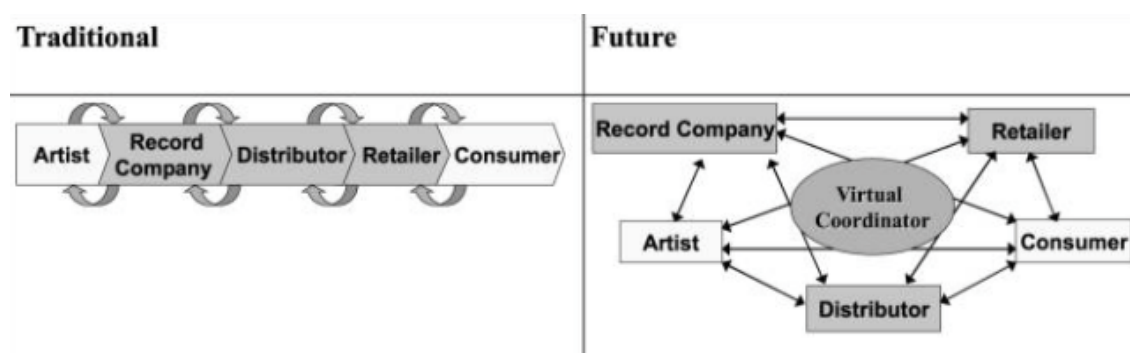


Figure 2. - The co-ordination structure
(Graham et al., 2004, p. 1098)

With the help of the supply chain, structural changes become visible. The digitalization eroded the business structure that dominated the record industries for decades. The dyadic and hierarchical system transformed into a network which opens new communication paths. Despite all those changes in the supply

chain and disintermediation effects, it needs to be noted that a real disintermediation did not happen, because a direct sell between producer and audience via their website is not happening that often. To get content into the digital shelves, music aggregators like TuneCore are employed. With that a re-intermediation occurs (Galuszka, 2015, p. 267). With help of this insights, the power relations within the supply chain will be examined in order to see where they eroded and if they re-emerged.

4.3.7 Power relations in the supply chain

The last chapter showed that the record industries' supply chain is not a linear and sequential construction anymore. A result of the network, like communication paths, is that the distribution and manufacturing stages stopped functioning as a bottleneck. In the old system those stages created competitive advantage for the majors, because it was a scarce resource due to high costs and economics of scale and had a high utility for the independent labels. They did not have a lot of options other than working together with the majors' distribution networks to get a comprehensive distribution.

The digitalization fundamentally shifted the distribution. Now the majors' distribution networks are not scarce and utility does not exist anymore, because they are easy to substitute. Artists or labels who cannot work directly with the digital content providers are now using services like The Orchard, TuneCore or Rebeat to place their content (Tschmuck, 2014, p. 192). TuneCore for example offers services for music distribution and publishing administration which makes record labels in general obsolete. Since its launch in 2006, the service generated \$541 million in revenues and sold over 15.2 billion total downloads and streams (TuneCore, 2015). The declining revenues for physical sales until 2020, discussed earlier, show that the importance of those distribution networks owned by the majors will have less and less importance. Still, within the traditional channels the majors have a dominant position. Physical formats will not disappear completely in the near future. But majors can assert less direct power towards the indies in general.

Old industry structures have been broken down, but what happened after that? Are entities of the record industries communicating with each other and directly

with the costumers? Could the market be described as democratized and decentralized? To look closer into the power relations, the new entities in the record industries—the digital music service and aggregators—have to be included. Due to intermediation new intermediaries emerged within the record industries' supply chain. Power relations in the supply chain are not directly situated between major labels and independents, but between majors and the new entities. Martijn Poel and Paul Rutten (2000, p. 60) underline that disintermediated processes are in many cases performed by new actors. It seems this is only true for independent and individual artists. Majors labels are working directly with the digital music shops. Whereas independent labels and individual artists have to include aggregators in order to get their content into the digital music stores.

Focusing now on the resource utility and scarcity. When thinking about the relationship between major record companies and digital music stores, power relationships get visible relatively easy. The fact that the copyright of the cultural texts is not embedded into physical goods, leads to extensive negotiations between the record companies and the digital music services. The former need to obtain the right to copy and distribute the copyrighted work. For the digital music services, as buyers, the scarcity of the good is high, because three majors provide approximately 65% of the currently popular content (Galuszka, 2015, p. 267). In this relation, copyright is a scarce resource owned by the major labels. The result is that without those three majors, the service cannot operate if the target group is located within the mainstream. This constitutes the utility for the buyer. In this buyer-supplier relation, power is very asymmetric. The leaked contract between Sony Music and Spotify (Singleton, 2015) shows that perfectly. Majors can assert power towards the online music services that have to act in ways they normally would not. With this direct connection between majors and retailer, the majors' influence is immense.

The independents are in a different situation. They only offer a small repertoire and have a smaller utility for digital music stores. Even though they are needed to make the digital music store's offer much broader. The scarcity of the resource is not given, because there is a multitude of small labels with small repertoire in the market. On the opposite side only a few digital music stores are

used by most of the digital costumers like iTunes, Spotify or Deezer (Galuszka, 2015, p. 268). For the independent or individual artists it is important to be on those retailers' lists. They have very little power.

Aggregators appear to intermediate in this situation. It is a new intermediary that steps into the slot of a disintermediated part like the physical distribution channels of the majors. The aggregator exists because the digital music stores are not willed to work directly with all those smaller entities. Its main task is to bundle digital rights form different copyright holders, independent labels or individual musicians and delivers them to online music stores (ibidem, p. 262). An intermediate is interposed between the independent labels respectively artists and the online retailers. Hence, there is only a little possibility to have a direct influence. The buyer-supplier power relation would be completely in favor of the retailer if aggregators would not exist to create at least a counterweight.

The major record labels are able to negotiate better deals with the retailers and have lower transaction costs, because they do not have to work with aggregators. Between the independents and online music services, aggregators mediate. That makes the supply chain looking similar to the old system. Majors are already integrated in this sector. Sony Music teamed up with the aggregator The Orchard, forming a major player in the digital distribution (ibidem, p. 286). It looks like with this integration, the majors regained their control, but two significant characteristics are not given compared to the old system. First, reproduction costs are not existing in the new system. It was shown that in the old system, circulation could be controlled by the major labels through the power over manufacturing and distribution. Secondly, the shelf of the online stores are limitless and to attract as many users as possible, a diverse content is favorable for the stores. Those two mechanisms of control created scarcity in the old system, but are not given anymore. Music is not scarce in the digital music services.

It got clear that the majors have a dominant position towards the online music stores. How could they use their power to regain their old control to create scarcity? The following chapter will take a look at the nature of the Internet to come closer to the answer.

5. The long tail, the blockbuster reality and filter mechanisms

In this chapter one of the most popular theories regarding the disruptive nature of online music technology, the long tail, will be explained. A deeper look will be taken at several academic works that tried to testify or disprove the long tail. An important piece of this theory, the filter mechanisms, will be examined critically and put in a different context. This will provide an interesting angle for the discussion that follows in chapter 6.

5.1 The long tail

On the previous pages the erosion of entry barriers due to disruptive innovation has been shown. Low production, reproduction and distribution costs as well as unlimited shelf space in the online music shops, opened the door for a lot of new entrants to offer their content. Those would not have the chance to enter the traditional retail stores in the old model. This was a hotbed for a lot of expectations towards the online music industries.

One of those positive reactions and maybe one of the most popular is Chris Anderson's (2014) theory of the long tail. He predicts the future of online business in a very positive way and that in the future niche products and not the hits will generate the biggest bulk of revenues.¹⁵ Anderson's (ibidem, p. 52-53) theory of the long tail can be summarized as followed. First he remarks that there are more niche goods than hits. The costs of reaching those niches is now falling dramatically through a combination of digital distribution and powerful search engines. At least he is not that optimistic and expects the users to find those goods automatically, barely because they are available. In order to navigate towards the niche, the user must be given a way to find niches. He names tools from recommendation systems to ranking, that can act as filters to drive demand down the tail. A result of that will be a flattened demand curve. Hits will not vanish because of the long tail, but they and niche products will converge more. Hence, hits will be relatively less popular and niches relatively more. Since the niches get more attractive, combined they can create a market, which is competitive to the hit market. The final outcome of all this, is a demand curve that is not distorted by distribution bottlenecks, scarcity of information and

¹⁵ Hesmondhalgh (2013, p. 330) categorizes his ideas as digital ultra-optimism.

limited choice of shelf space. He summarizes this as “culture unfiltered by economic scarcity” (ibidem, p. 53). The last chapters (cf. 4.3.7) hint at that disintermediation could be a force that unfiltered scarcity.

This is achieved through three forces, which are connected to the disintermediation of the supply chain. The first force is democratizing the tools of production. Here, he refers to the personal computer as a paragon. It puts everything from printing press, to film and music production into the hands of anyone. From 2004 to 2005 the number of released albums grew from 44,000 to 60,000 and during the same time 300,000 tracks were uploaded to MySpace. This procedure enhances the tail even more, since more content is available. Therefore, the longer tail fattens due to the democratization of distribution, which is the second force. This part has been described in detail above. The last force is connecting supply and demand. With the help of filtering mechanisms like recommendation systems, word-of-mouth or customer reviews, attention is put to the niche products. Those filtering mechanisms lower the search costs¹⁶ for the user to find niche products. With lower search costs, users can easier choose between hits and niche products, which leads to a natural shape of the demand curve (ibidem, p. 56-57). This seems like a sound mechanism for more diversity in the record industries and democratized power relations. How does that look in the real economy?

5.2 Blockbuster reality

Several scholars from different disciplines dealt with the long tail theory and tested its validation. Erik Brynjolfsson, Hu Jeffrey Yu and Duncan Simester (2011) proved in their empirical study that the long tail exists. They compared online with catalog purchases and only included items that are represented in both shops. The online items showed a longer thicker tail and a decline in the top segment selling compared to the items sold offline. Those findings are not only statistically meaningful, but also economically. This study connects those findings to lower search costs (ibidem, p. 27). For the present purpose, this

¹⁶ Search costs can be defined as anything that is in the way of finding a certain good. Those can be non-monetary like wasted time, hassle, wrong turns or confusion. Others are monetary such as mistaken purchases or paying too much for a good because the cheaper one could not be found (Anderson, 2014, p. 56).

paper is informative but questionable because the studied company is a medium-sized retailer selling women's clothing—mostly the company's private label brand (ibidem, p. 6). What do studies reveal contextualizing entertainment goods?

Brynjolfsson et al. (2011, p. 5) refer to a paper written by Anita Elberse and Felix Oberholzer-Gee (2008) and demonstrate that they found evidence that a larger share of video sales shifted towards niche products in the time frame from 2000 to 2005. Additionally, studios sell fewer copies of a larger number of titles. Indeed, Elberse and Oberholzer-Gee's (2008, p. 24) study reveals an increasing long tail. Even though a decline in the whole quantile of sales distribution happened in that period, the drop was larger among best-selling items. What was not mentioned by Brynjolfsson et al. (2011) is that hits as a category generated fewer sales, but individual bestsellers had a significant growth. The number of titles in the top 10% of sales dropped by more than 50%. This is an increase in concentration common in winner-takes-it-all markets. Also the part of the tail that sells never or very rarely, is increasing rapidly (Elberse & Oberholzer-Gee, 2008, p. 24).

Another study was conducted by Will Page and Eric Garland (2009). They compared the long tail in legal and illegal online music services. They found out that even in the illegal sphere, hit releases are more likely to be downloaded than niche products. Still the illegal tail moves towards the long tail, but is much closer to the tail of legal single downloads. In the illegal curve 95% of the niche files generated 20% of the illegal swaps. Whereas in the legal curve only 10% of the revenue were generated by 95% of the legal niche items. Anderson's long tail predicts that 95% of the content generates 80% of the revenues (ibidem, p. 3). That is a huge divergence between the long tail model and the real findings. Searching for music tracks in the peer-to-peer networks takes a significant amount of time, since millions of tracks are offered. Hence, the searching costs for niche products are relatively high. Anderson could argue that within peer-to-peer networks, filtering mechanism are not at work. Thereby, the supply is not connected with the demand. Unfortunately the article does not reveal when the data set for the three curves was collected. Another table in the same paper shows numbers from June 2008 (ibidem, p. 4). It could be assumed that the

data set for the curves is not younger than that. Questionable is how good the filtering mechanisms of online music retailers were developed in 2008. At the same moment even with inefficient filtering models, the legal single download curve should not drift so far apart from the long tail expectations.

One of the most comprehensive studies of the entertainment business was conducted by Antia Elberse (2014). In her book *Blockbusters* she showed that the long tail theory is not working within the cultural industries. She looked at film, music and sports industries and came to the observation that in all those markets, the tendency moved towards an even more concentrated hit-driven economy. Directly referring to Anderson's ideas that the niche markets together will exceed the size of the existing markets, she notes that the data on how markets are developing, show a different picture. The tail becomes longer, but even thinner and the importance of bestsellers over time is growing and not diminishing (ibidem, p. 159). She shows that out of the eight million digital single tracks sold in 2011, 94% sold less than one hundred units and 32% sold only one copy. The 74% that sold fewer than ten copies, accounted for only 1% of the total sales in 2011. Whereas 36 tracks, each selling more than one million copies, accounted for 7% of the sales (ibidem, p. 160-161). Looking at the album numbers is not providing a different picture. Only 13 albums sold more than one million copies and accounted for 7% of the revenues and 58% of the albums sold fewer than ten copies. It has to be noted that the album numbers are physical and digital sales. Anyway those examples clearly show that the markets moves rather towards a winner-takes-it-all environment than the long tail (ibidem, 162-163).

Despite all the emancipating and decentralizing disruption due to innovative technology, the market generated an even better competitive situation for the major record companies. Why is the audience avail of the unlimited music offered online? Anderson mentioned filter mechanism to drive the demand towards the tail. Maybe the choice is not as unlimited as it is expected?

5.3 Filter mechanisms

Some of the scholars look at the increased choice and user behavior to find answers why the long tail is not working. It is argued that in markets where a big

choice is offered, the gap between hits and niches are widening. Page & Garland (2008, p. 5) and Elberse (2014, p. 164) refer to William McPhee. First he showed that a disproportionately large share of the audience for popular products is constituted out of relatively light consumers. That are consumers who only buy a specific product infrequently. Whereas the consumers interested in obscure titles consist of heavy users. Consumers interested for obscure music products are more used to have a broad offer and popular products are used by consumers that only know a few others. Thereby, hit products monopolize light consumers. Second, consumers of obscure products in average appreciate those products less than popular products. This is because niche products are not well known and if they become popular, it is by people who know better and actually prefer the popular product. This is called double jeopardy. Niche products get significantly lower ratings than hit titles. For McPhee this is like a natural monopoly (ibidem). As solid and logic this sounds, a multi-million dollar cooperation would not rely on the normal behavior of its costumers. The major labels still have a certain power position and sales are still in their interest, but how could they regain the lost control?

Coming back to the behavior of the costumers' force with an increased amount of choice. Barry Schwartz (2005) explained in his work that an increasing choice is not always helpful and that people tent to choose the known over the unknown. The sheer process of choosing is a real effort. Gathering all the information and the problem that occurs if we make a wrong decision, are counterproductive to make a choice (ibidem, p. 74-75). There is just too much information not only regarding musical content, but in general. People are lead astray with the absence of filters (ibidem, p. 55). In reaction to Schwartz (2005), Òscar Celma (2010, p. 4) states that consumers are often paralyzed and doubtful confronted with the overwhelming number of choices and that there is a need to eliminate some of the choices to ease users' decisions. Already in 1971, Herbert Simon (p. 72) suggested, that to tackle the information overload, information needs to be filtered by intelligent programs. In his evaluation of the Norwegian streaming market, Nordgård (2016, p. 187) noted that the streaming service WiMP's editorial has a substantial effect on the users' listening behavior. It gets clear that navigation and filtering are substantial for the audience while consuming music in the Internet.

In the old model, products unlikely of getting bought were pre-filtered and did not end up in the record stores. The now unlimited shelf space makes that unnecessary. Even products that are likely to get no play on Spotify, do not need to be removed. For Celma (2010, p. 88), whose work tries to improve recommendation systems, it is important not to recommend the songs that have low quality but are not removed from the digital shelves. This happens via post-filters, hence recommendation systems. This reinforces the need for Anderson's third force for the long tail that is supposed to drive demand down the tail. Filtering mechanisms lower the search costs for the audience. With the help of those filters, the audience is able to navigate through the vast amount of information available online. Word-to-mouth, advertisement, recommendation systems and so on can serve as filters and navigate the costumers (Anderson, 2014, p. 55-57). Already here, it can be argued that an excluding mechanism is working. When one track is recommended another is not. Every attempt to narrow the choice is excluding those choices that have been left behind. Is this a new bottleneck?

Google is a good example for that. When people are exposed to a lot of information, Matthew Hindman and Kenneth Neil Cukier (2004, A19) argue, they are tending to pay attention only to a few. A majority of the user for example do not click past the first or second Google Search results page. Already in 2004 they warned about the power that lies in companies' hands if they can control information in that way. Hence, information that happens to occur on page three of the search results is virtually not there. The rankings of search engines have a self-reinforcing effect. The more popular websites are, the higher they are ranked. Those rankings are based on the number of links in the web that lead to a certain web page. There more links the higher the rating.¹⁷ This mechanism is resulting in winner-take-all networks (Hesmondhalgh, 2013, 329). This example shows in a very good way how means of navigation in the online sphere can exclude information.

It is a fact, that the vast amount of data needs to be organized by companies to enable a navigation of the consumer. Authors like Anderson (2004) and Celma

¹⁷ Other factors determining the ranking of a website are creating an intelligent site structure, research keywords, optimizing on-page content, interlinking and generating compelling content (WordStream, 2016).

(2010) locate this post-filtering process in the service of the user. Giving a tool in order to find the information the user needs. Hindman and Cukier (2004), as well as Hesmondhalgh (2013) show that those mechanisms can also bias the results. Powerful tools such as search engines, recommendation systems or advertisement in the hand of a cooperation could help to exclude unwanted information. If wanted or not, it is an excluding mechanism. Interestingly, a connection to Hirsch (1970) appears, who described the record industries as a flow filter mechanism. Over 40 years later, filtering could become a central topic again.

The following discussion will organize the structural changes and framework conditions shown in the previous chapters to suggest possible new control mechanisms for the major record companies.

6. Discussion

6.1 Pre-filtering in the old model

In the previous parts of the present paper a comprehensive insight into the record industries, the disruptive nature of the digitalization and the structural transformations has been acquired. Major record industry executives had to leave a solid market situation with a huge amount of control that lasted for decades. With the help of vertical integration, major record companies held control over the supply chain. An important bottleneck was the ownership of manufacturing and distribution networks. This allowed the majors to have direct influence on the schedules, circulation and distribution of releases by competitors. Additionally, tight connections and cooperation with rack jobbers and retailers enabled the majors to effectively use the limited shelf space in retail stores. But what happens in this situation?

Light users of popular products enter the Wal-Mart and are confronted with a limited choice of musical works in the shelf. Since they are not used to broad choices, the incentive to search to a greater extend for music is not given. Hesmondhalgh's reaction to the fact that Page and Garland (2009) do not speculate on explanations, why niche titles available in the long tail are not getting purchased or illegally downloaded is: "[...] consumers probably don't know that the tracks are there" (Hesmondhalgh, 2013, p. 330). Did the

consumers know in the old model that niche products are there? Without going into special record stores, a normal consumer did not get easily in contact with niche products. At least in big traditional record stores like Tower Records the niche records were physically present.¹⁸ Still, the excluding mechanisms inherent in controlling manufacturing and distribution are creating a reality without niche products. The light consumer is not getting in contact with them. In other words the control over distribution and manufacturing is controlling attention and visibility in a physical way.¹⁹

6.2 The long tail in two different environments

Brynjolfsson et al. (2011) proved with their study that the long tail exists. Whereas Page and Garland (2009) and Elberse (2014) showed that it is not working. Why does that happen? Anderson's (2014) book is not solely about the cultural industries, but addresses most of its examples to the entertainment business. Brynjolfsson et al. are studying "a medium-sized retailer selling women's clothing at moderate price levels." (Brynjolfsson et al., 2011, p. 6). The frame work in which those clothes are sold is via the company's own catalog and Internet channels (ibidem). On the contrary, Page and Garland (2009) and Elberse (2014) are working with the record industries respectively entertainment industries in general.

An important detail gets visible. The difference makes the environment. Brynjolfsson et al. are researching in a kind of closed situation. Here competition is not working, since the products are all from the same brand. The clothing company should not really be concerned which products they sell as long as the numbers are right. Both, buying a niche product or a hit product generates sales for the clothing company. Surly, one of the majors would not be concerned if smaller acts out of their own repertoire would be streamed or bought in their own shop, because the label would generate revenues in either case. In the environment of the record industries competing companies are offering their products via the same channels and within this environment power relations are working. Spotify and iTunes offer repertoire from the majors and

¹⁸ It can be questioned, if light users would pay attention to all of the huge record stores inventory. In chapter 5.3 it was shown how overwhelming wide choice can be.

¹⁹ Of course advertisement and media corporation organize visibility too, but on another level.

independents. Buying or streaming a song from an independent is obviously not in the interest of the majors, because economics of scale are also working in the digital era.

The long tail works when there is no competition and fails when competition is at work. That suggests the assumption that in a competitive environment mechanisms appear to create a competitive advantage. It was already mentioned that filter mechanisms can be an important tool to exercise power. Is filtering generating competitive advantage?

6.3 Post-filtering in the new model

After the digitalization, the bottleneck situation caused by ownership of distribution and manufacturing eroded. Possibilities to circumvent the traditional supply chain of the record industries and with that the bottleneck emerged. The amount of available musical content grew into an unlimited extent. Majors are still important intermediaries, simply because of their financial backup and because economics of scale are still working when it comes to negotiations with business partners. Even though the bottleneck practically does not exist anymore, only a few hit titles are responsible for the bulk of revenues.

In his theory, Anderson (2014, p. 56) used the means of post-filters to connect the supply of niche products with the demand. In other words he implements an intermediary to organize visibility and attention. Taking into account the big proportion of light users within the popular segment, this could be a key to regain control in the supply chain. The new intermediary, visibility and attention, can be understood as an intermediation. Hence, it is a new intermediary within the supply chain that has been eroded due to disintermediation. Visibility and attention are located between the online retailer and the audience, since the repertoire is limitless and only needs to be navigated towards the user. Because of the disintermediation of the supply chain, a bottleneck on the supplier side of the digital music stores is not possible anymore. The entity, having control over these vulnerable resources visibility and attention, can create a new bottleneck and will be able to generate assets.

Playlists and curation are already used to organize the vast amount of information and to channel visibility and attention. The head of digital sales from Warner Sweden told that playlists are important for them to gain exposure for their artists. X5 Music, a label focused on back catalogs, is trying to drive its music via playlist, because their songs in the long tail are less active than others (Stassen, 2015, p. 25). Streaming services put big effort to get their hands on the best available technologies and personalities for the process of curation based on algorithms or hand-on curation. All big companies bought search engine tech companies. Google bought Songza, Apple Music Beats Electronics or Rdio acquired the music recommendation platform TastemakerX. Also Warner Music Group bought Playlists.net, which is an aggregator of Spotify playlists. Additionally, those companies bought or bit on startups that analyze data about the consumer's listening habits (Hogan, 2015). The technical side of curation is about coming as close to the consumers taste and desires as possible, by connecting the taste and habits of like-minded consumers. The problem here are not the playlists, but the power relations that occur with them. The two biggest record companies Universal and Sony curating their own playlist on streaming services. With Digster, respectively Filtr they gain huge attraction for example on Spotify and with that a new instance of gatekeeping is established. Those playlists do not play exclusively Universal or Sony repertoire, but the majors owning them, decide what will be incorporated into the playlist. For smaller artists that means, that their chance of visibility again is diminished. Current academical works concerned with playlists in streaming services concentrate on the user experience (Nylund Hagen, 2015) or on the technical side (Choi, Fazekas & Sandler, 2015), but not on their impact on the record industries.

The major record industries already engage with companies working with big data in order to analyze the audience and its behavior. Prithwijit Mukerji (2015) is one of the first to look at the use of big data with regard to the record industries. Taking it from the angle to use "big date to give the consumers what they really want" (ibidem, p. 1). Major record labels already started to team up with analytics companies. For example Universal is working together with Topsy, a company analyzing Twitter trends by owing a database of over 300 billion tweets (ibidem, p. 13). Warner formed a strategic partnership with Shazam,

which gives Warner access to enhanced deep data on fan behavior. Those tools enable the majors to detect new trends early and analyze them on a more granular level. Using those tools grants strategic advantages in market research over competitors (ibidem, p. 18). By implementing these technologies into A&R work and marketing helps to have a critical advantage in marketing the audience.

6.4 Re-establishing means of control

Playlists and big data are not located between the majors and the digital music services. They grant competitive advantage, but a direct power relation is not occurring. Because of that, the relation between digital music services and the majors will be examined now.

Taking a look at the shifted power relations within the supply chain shows that the sequential and linear structure has vanished with the digitalization. The buyer-supplier relation between the indies and the majors does not exist in the same manner as before. The relation between the majors and the retailers was ambivalent. Towards the traditional record stores, the power relations were on the side of the majors, since majors offered a large chunk of the repertoire. More diverse retailers like Wal-Mart used records as loss leaders and sold them as cheap as possible to attract costumers, because records only made a fracture of Wal-Mart's total revenues. The same happens with Apple and its service iTunes. Here it is important to connect devices like iPod, iPad and iPhone with the content. The goal is to sell devices that generate higher margins.

For the majors an important resource is the copyright. In order to offer digital files to sell or stream, it is needed to obtain the right to copy and distribute the copyrighted content. Here lies the power of the majors in the digital environment, because economics of scale start to work. A huge repertoire generates power. Wikström (2013, p. 7) describes music in the digitalized environment as music as service. What is paid for is the access to music and the means to navigate through the vast amount of data. Navigation is in one or the other way also filtering, because the listener can only be navigated towards

one track. That excludes all the other possibilities. Could the majors use their dominant position to have an impact on that procedure of navigating?

An interesting fact revealed the leaked contract between Sony and Spotify that settles the audio/video distribution of Sony's repertoire on Spotify (cf. 4.3.3). Despite the immense advances already mentioned, Sony could achieve even more advantages out of the deal. In section 14 of the contract the advertising inventory is regulated. In section 14(a) Sony is granted a credited inventory of \$9 million in total spread over three years. This inventory is actually more worth than \$9 million because it is valued at a so called best or preferred costumers' rate. Additionally, Sony is allowed to buy inventory for \$13 million within the same period, obviously discounted (Sony, 2011, p. 36). In section 14(e) and 14(f) Sony gets the right to resell their credited inventory at prices determined by the label and retains all the monies received for it (ibidem, p. 37). Furthermore in section 14(p) Spotify has to offer its unsold advertising inventory to Sony in order to promote Sony's own artists (ibidem, p. 39). It is to be assumed that if Sony was able to conclude a contract like this, the other majors did, too. All of them hold the copyrights for the repertoire Spotify is in need for and without it a streaming service is not conceivable. Devoid of power relations within the record industries' supply chain, assets like this would not be possible. What happens here is that Sony is in the position to use advertisement inventory for free or to sell it. With that Sony can also decide to whom it sells the inventory. In other words Sony has control over a certain portion of visibility and attention on Spotify.

Visibility and attention is probably the most important resource in order to generate a dominant position in the record industries' supply chain. Considering that revenues of physical formats will permanently decline until 2020 (Mulligan, 2015, p. 5) and streaming will outperform downloads within the same period (ibidem, p. 10), the strong buyer-supply relation of the majors towards the streaming services could lead to recreate this strong bottleneck situation that existed in the old model. Only now it is located on the buyer side of the retailers and not on the supplier side like in the old model (cf. 4.2.3).

The disintermediation left a blank field that evokes a lot of hope for digital optimists and online activists. Especially Elberse (2014) showed that ideas of decentralization and democratization could not be fulfilled in the record industries. Of course the production and distribution of musical texts can now be done by musicians and even micro independent labels themselves, but does that lead to an equal participation within the record industries and a fair share of the revenues? According to Elberse's (ibidem, p. 161-162) research about the sales figures of single tracks and albums, the clear answer is no. Supported by the structural changes and new intermediaries getting bought or cooperating with majors, this new bottleneck and the re-established power relations are already in the making. Barriers of entry as well as power within the record industries' supply chain have not been eroded but shifted. In the new digital environment major record companies are as powerful as they were in the old days.

7. Conclusion and future research

The present works' objective was to describe the structural change that happened within the record industries due to the digitalization. A focus was put on making the shifted power relations visible and to suggest new control mechanisms of the major record companies.

This objective could be fulfilled by examining the record industry from the macro to the micro level. With the help of the five competitive forces and the supply chain framework, the record industry could be analyzed starting from a broad perspective and narrowing it down to critical power relations between single entities within the supply chain. As a result, competitive advantage and power relations could be located within the old and the new model of the record industries.

Due to disruptive innovation the power relations and control mechanisms of the old model have been eroded. Here the power of the majors was located in the control over manufacturing and distribution of recorded music. In the digitalized model an expensive distribution network was not needed anymore and the reproduction of MP3s is virtually zero. With that, the foundation of the majors'

power disappeared. Interestingly, the market shares of the majors have not really changed following this transformation.

In order to come closer to the question why nothing changed, the long tail theory was analyzed critically. This is one of the most popular and influencing theories about the positive outcomes of the digitalization. Several scholars disproved the shift towards niche products in the digital environment and showed that rather the opposite is happening. An even smaller amount of record generates the build of revenues. An interesting characteristic of the long tail theory is the use of a new intermediary, the filter mechanism. This should lead the consumers towards obscure niche products.

Looking at this procedure from a different angle, opened a whole new perspective on the possibilities this mechanism could hold. Scholars have already criticized Google for the way it organized the visibility of information. It is undisputed that the audience needs navigation, when listening to music online, just because the unlimited content available is slaying. The bottleneck function of the manufacturing and distribution controlled by the majors in the old model does not exist anymore. Filter mechanisms that organize attention and visibility could act as the same bottleneck, but between the online music services and the audience. Having control over attention and visibility, could provide a critical asset and the leaked contract between Spotify and Sony suggests that this is already happening.

The thesis of the present work was that the control mechanisms have shifted from manufacturing and distribution to visibility and attention. This thesis cannot be proved by the paper at hand, but that is not the objective of it, which was to provide suggestions and interesting angles for future research. What this paper provides are indications that this shift is possibly happening. To which extend and what impact it has, is not clear.

For future research a closer look towards how Sony has used its advertising inventory is desirable, but most likely not feasible since those agreements are non-disclosure. In general, research to what extent visibility and attention can be co-opted by major record companies would be interesting. With their dominant position towards the online music services, it can be sure that they will find ways to re-establish their control.

Other research could investigate if the digitalization really is a disruptive innovation or if it was more like a disruptive blueprint and majors are already working on internalizing the structural transformation of the record industries. Big conglomerates are standing behind the major labels and they want their shares. This suggests that appropriation is already in the making. The question is how.

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